

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Explain EITHER why the AD curve takes its shape OR why the LRAS curve takes its shape.

2) (10 points) Answer EITHER Part A OR Part B.

A) Suppose you know how much NDP is. Name TWO other pieces of information you would need to know to calculate NI. Explain how you would use that information and why it is added or subtracted.

B) Suppose you know how much NI is. Name TWO other pieces of information you would need to know to calculate PI. Explain how you would use that information and why it is added or subtracted.

3) (12 points) For EITHER the action in Part A OR the action in Part B, explain what that means and how it helps a country to have its economy develop.

A) Establishing a system of property rights.

B) Developing an educated population.

4) (14 points) Answer EITHER Part A OR Part B.

A) Why do income taxes and sales taxes have different effects on the SRAS/LRAS/AD diagram? You do NOT need to draw the diagram.

B) Must movements of the LRAS curve also cause movements of the SRAS curve or must movements of the SRAS curve also cause movements of the LRAS? Which of the statements is true? Why is it true and the other one false?

5) (18 points) Answer EITHER Part A OR Part B.

A) Explain how longer patents can help the economy. Explain how longer patents can hurt the economy.

B) The book says that economic growth can cause *more pollution* and *urban congestion*. Explain how it can cause both of these results.

6) (18 points EACH) Illustrate TWO of the following events on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level and GDP? Do the TWO parts on separate graphs.

A) The amount of capital increases.

B) The government spends more.

C) The price of oil increases.