

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 150 points (to be scaled up to 210 points) and is scheduled to take 75 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) Answer EITHER Part A OR Part B.

A) What unemployment rate is considered to be full employment in the USA? Why isn't it 0%? Explain your logic.

B) What is wrong with the statement, "When inflation is higher, everybody is hurt because they can no longer afford what they bought before."?

2) (10 points) For EITHER the AD Curve OR the LRAS Curve, explain why it takes its shape. (Warning: Remember, AD does not take its shape for the same reason as the demand curve.)

3) (12 points) Answer EITHER part A OR Part B.

A) If I told you NI, what information would you need to calculate PI? Explain how you would use that information and state what NI and PI stand for.

B) Explain why the value added method of calculating GDP should give you the same answer as the expenditure method.

4) (12 points) Answer EITHER Part A OR Part B.

A) We use *real GDP per capita* as a measure of how well off we are. What does real GDP per capita mean?

B) We use *real GDP per capita* as a measure of how well off we are. Why might this systematically underestimate the incomes of people in developing countries?

5) (14 points) For EITHER *limiting protectionism* OR *letting creative destruction run its course*, explain what that means and how that helps the country to develop.

6) (14 points) Answer EITHER Part A OR Part B.

A) Why is it rare that both the AD and SRAS curves move at the same time? Make sure you mention what general types of events moves each of them.

B) A sales tax and an income tax have different effects upon the SRAS/LRAS/AD diagram. Why? Make sure you state what the effects are, but you do not need to draw the graph.

7) (16 points) Answer EITHER Part A OR Part B.

A) Suppose a country has 500 people of working age. 270 residents have jobs. 180 residents are stay-at-home parents. 30 people are looking for jobs. 12 people have been unemployed so long, they stopped looking for a job. 8 people are in jail. What are the unemployment rate and the labor force participation rate? Show all work and briefly explain what you did.

B) Suppose the CPI at the beginning of the year was \$500 and people expected the inflation rate to be 12%.

Suppose that at the end of the year, the CPI was \$550. What was the inflation rate? Show all work and briefly explain what you did. Who was hurt by the inflation? Explain your logic and mention two groups who are hurt.

8) (18 points) Answer EITHER Part A OR Part B.

A) What are two negative effects of economic growth? Explain how economic growth causes those effects.

B) How does human capital affect GDP? Why does it have that effect? How can the government encourage

GDP growth via human capital? Explain how that would have the desired effect.

9) (20 points) Answer EITHER Part A OR Part B.

A) Draw the LRAS/SRAS/AD diagram. Illustrate an increase in the marginal propensity to consume. Explain why the curve(s) moved as drawn. What happens to the unemployment rate, price level, and GDP? Briefly explain how you reached that conclusion.

B) Draw the LRAS/SRAS/AD diagram. Illustrate an increase in government spending. Explain why the curve(s) moved as drawn. What happens to the unemployment rate, price level, and GDP? Briefly explain how you reached that conclusion.

10) (24 points) Answer EITHER Part A OR Part B.

A) Draw the LRAS/SRAS/AD diagram with the economy at full employment. Draw the effects of oil prices down. Explain why the curve(s) moved as drawn. What happens to the unemployment rate, price level, and GDP? Briefly explain how you reached that conclusion.

B) Draw the LRAS/SRAS/AD diagram with the economy at full employment. Draw the effects of a new technology's being invented. Explain why the curve(s) moved as drawn. What happens to the unemployment rate, price level, and GDP? Briefly explain how you reached that conclusion.

11) (0 points) Below is a complete list of every example I can find which has a bizarre property for the initial release. What is that property? (0 points extra credit) Can you find another example of that property?

The Kids are Alright by The Who

Sheer Heart Attack by Queen

Brain Salad Surgery by Emerson Lake and Palmer

Out of the Silent Planet by Kings X

Losing Streak by Less Than Jake (in the USA but not in Japan)

Why are you working on a zero point question on April Fools' Day? Even though this question is an April Fool's Day joke, it is true that I can only find these five examples. Can you figure out what they have in common?