

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) Answer EITHER Part A OR Part B.

A) Give two reasons why it is important to start saving for retirement the minute you get a job.

B) If your savings account pays 2% interest, how long will it take to double? If the interest rate increased to 5%, how long would it take to double? Show all work and briefly explain what you did.

2) (12 points) For EITHER pollution OR alienation, explain how faster economic growth and development.

3) (10 points) Answer EITHER Part A OR Part B.

A) Draw the classical school's SRAS curve. Explain why it takes that shape.

B) Explain the problem with this statement, "When the price level goes up, we cannot afford to buy as much; therefore, consumption decreases. That is why the AD curve slopes down."

4) (10 points) Answer EITHER Part A OR Part B.

A) Draw the LRAS curve. Explain why it takes its shape.

B) Give an example of what causes cost-push inflation. Explain how that causes inflation.

5) (14 points) Answer EITHER Part A OR Part B.

A) Suppose the consumption function is really  $C = 1000 + 0.8*(Y-T)$ . If a person's disposable income is \$20,000 then how much is their MPC, MPS, APC, and APS. Do the same calculations for a person with an income of \$100,000. Show all work. If there is no work, then state how you got the number.

B) Draw the Keynesian Cross, a.k.a. 45° diagram. Draw the effects of an increase in the marginal propensity to save. Explain why the line(s) moved as drawn. What happens to real GDP?

6) (16 points) Answer EITHER Part A OR Part B.

A) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the average wage rate of hourly workers. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?

B) Draw a recessionary gap on the SRAS/LRAS/AD diagram. Explain how you know your graph shows a recessionary gap. If the government takes no action, i.e. the economy fixes itself, how would the economy solve the problem? Illustrate that on the diagram and explain why the curve(s) moved as drawn.

7) (28 points) Answer EITHER Part A OR Part B.

A) Draw the SRAS/LRAS/AD diagram and the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of an increase in the income tax rate. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?

B) Draw the SRAS/LRAS/AD diagram and the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?