

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) Is GDP a stock or a flow? Explain your logic.

B) How do we calculate real GDP? Why do we do it that way?

2) (12 points) For EITHER the event in Part A OR the event in Part B, determine what happens to the unemployment rate and labor force participation rate. Explain your logic noting which type of unemployment is affected. Also state why you chose that type of unemployment.

A) A stay-at-home dad decides to start looking for a job.

B) A coal miner gets laid off because there is more green energy available.

3) (12 points) Explain EITHER the equation in Part A OR the equation in Part B.

A) $c = b_P y_P + b_T y_T$. Explain the variables (y_P and y_T) in the equation and give an estimate for the size of the parameters.

B) $S_{GVT} = (T - TR - INT) - G$

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

A) Explain how durable goods could result in a different MPC for temporary increases in income than what the Life-Cycle Model or the Permanent Income Theory would predict.

B) The Life-Cycle Model or the Permanent Income Theory implicitly assume that there are no constraints on borrowing. If there is a constraint on borrowing, then what might happen to consumption if there is a temporary cut in income? Explain why that might occur.

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

A) Suppose Ricardian Equivalence holds. What would happen to government saving, private saving, and national saving if the government were to increase government spending? Explain your logic.

B) How do we calculate NFP? Briefly state why we do it that way. In the equation for national saving, why doesn't INT appear?

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

A) If you knew NNP and wanted to calculate NI, what statistics would you need? How would you use them? Why would you add or subtract them?

B) If you knew NI and wanted to calculate PI, what statistics would you need? How would you use them? Why would you add or subtract them?

7) (20 points) Answer EITHER Part A OR Part B.

A) Draw the inter-temporal budget constraint. Illustrate the effects of a decrease in the interest rate.

Explain why the curve moved as drawn. Assuming the person started in the upper-left-hand part of the line, what likely happens to their consumption this year and what likely happens to their saving this year.

Explain both the economic reason this occurs and how you can see the change in likely consumption on the graph.

B) Draw the diagram for Modigliani's Life Cycle Model. Use it to show the effects of winning the lottery for \$2000. What happens to the amount of consumption done this year and the saving done this year? Explain the economic reason for both.

8) (20 points) Answer EITHER Part A OR Part B.

A) Draw labor supply and demand diagram. Show the effects of an increase in wealth. Explain why the curve(s) moved as drawn.

B) Draw the inter-temporal budget constraint. Show the effects of an increase in wealth. Explain why the curve moved as drawn. What would you expect would happen to consumption and saving? Briefly explain your logic.

9) (32 points) Answer EITHER Part A OR Part B.

A) Draw the labor supply/demand diagram and the production function with labor on the horizontal axis. Illustrate the effects of a positive productivity shock. Explain why the curves moved as drawn. What happens to the amount of labor hired, the real wage rate, and the level of GDP. Briefly state how you found each.

B) Draw the labor supply/demand diagram and the production function with labor on the horizontal axis. Illustrate the effects of an increase in the amount of capital. Explain why the curves moved as drawn. What happens to the amount of labor hired, the real wage rate, and the level of GDP. Briefly state how you found each.

10) Extra credit (4 point maximum) I just changed all of the word "savings" in the review sheet to "saving." Why?