

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 150 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) What is meant by *crowding out*? Explain how it can make countercyclical fiscal policy less effective.
- B) President Trump wants to restrict trade. Given what you learned in this class, is that good economic policy? Explain your logic.

2) (10 points) For EITHER of the following events, determine what happens to M1 and M2. Explain your logic.

- A) You pay for your books with a credit card.
- B) You pay for your books with a check.

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

- A) Use terminology and logic from economics to explain why people are willing to pay more for a product at a convenience store when they can get it for cheaper at a grocery store.
- B) Use terminology and logic from economics to explain why few of you are earning an A in this class, even though all of you are capable of getting an A in this class.

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

- A) Draw a PPF for raincoats and umbrellas. Draw it taking the normal shape. Find a point on it where the opportunity costs of an umbrella is approximately 2 raincoats. State how you know the opportunity costs are about 2 raincoats.
- B) Suppose the consumption function was given by  $C = 500 + .9(Y-T)$  and the person had disposable income of \$10,000. Find the MPC, MPS, APC, and APS. Show all work. If there is no work, then explain how you reached the conclusion.

5) (16 points) Answer EITHER Part A OR Part B.

- A) Draw the supply and demand diagram for smart phones. Illustrate the effects of an increase in the price of a desktop computer. Explain why the curves moved as drawn. What happens to the price and quantity of smart phones sold?
- B) Draw the supply and demand for desks. Illustrate the effects of an decrease in the price of wood. Explain why the curve(s) moved as drawn. What happens to the price and quantity of desks sold?

6) (20 points) Answer EITHER Part A OR Part B.

- A) Draw the supply and demand for sugary soft drinks. Illustrate the effects of a price floor on the drinks. Explain why the graph looks as drawn. What is the problem created? What would the market do about that problem? Explain your logic.
- B) Draw the supply and demand for a product like coal which creates a negative externality. Prove the optimal production is not achieved. What do economists feel should be done about that? (Hint: it is not what the EPA does.) Illustrate the effects of that policy. Prove the optimal point is achieved.

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

- A) What is the long-term problem facing Social Security? What are the two long-term trends which mean the problem will get worse for the next decade? State how they will make the problem worse. One proposal to reduce the problem with Social Security is to increase the Social Security tax. How would that reduce the problem? Should this be part of a package to save Social Security? Explain your logic.
- B) There are three ways of calculating GDP. What are they? For TWO of them, explain why they should give the same results.