

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 can give extra time, but not a lot.

1) (10 points) For EITHER Part A OR Part B, determine what the impact would be on real money demand. Explain your logic.

A) Risk of non-money assets increases.

B) Wealth increases.

2) (12 points) Define ONE of k^* , k_G , and k_{MAX} from the Solow Growth Model. Also tell me whether that variable is important or unimportant and why you feel it.

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

A) $MD/P = L(Y, r, \pi^e)$

B) $\Delta Y/Y = sA - d$

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

A) What are the three functions money. For ONE of them, determine if M1 or M2 would be better at that. Explain your logic.

B) When we moved money around, M2 almost never changed. Why not? What did change that? Why?

5) (14 points each) For TWO of the following, find the double entry bookkeeping entries. Briefly state how you found them. What happens to CA and KFA? Briefly state how you reached those conclusions.

A) You sell a painting you created, to a Canadian for \$500.

B) You sell \$500 worth of Ford stock to a Mexican.

C) You import a \$690 briefcase.

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

A) Use the Endogenous Growth Model to explain why George W. Bush's cutting of the tax on dividends was a good idea. Use the same model to explain why his huge government deficits were a bad idea.

B) Use the Endogenous Growth Model to explain how increasing patent lives might affect the long-term growth of GDP. Use the same model to explain how NASA grants for research at colleges and universities in the sciences will affect the long-term growth of GDP.

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

A) Given an example of decrease in US owned assets abroad. State why your example fits that description. By itself, is that an increase or a decrease to the KFA? Explain your logic.

B) Draw the S/I diagram for a small country with a CA surplus. State how you know it is a surplus. Illustrate the effects of an increase in government spending without Ricardian Equivalence. Explain why the curve(s) moved as drawn. What happens to the CA, S, and I?

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

A) Draw the Solow Growth Model diagram. Illustrate the effects of an increase in population growth rate. Explain why the curve(s) moved as drawn. What happens to the steady-state GDP per capita and capital-labor ratio?

B) Draw the Solow Growth Model diagram. Illustrate the effects of a decrease in the government's deficit. Explain why the curve(s) moved as drawn. What happens to the steady-state GDP per capita and capital-labor ratio?

9) (24 points) Answer EITHER Part A OR Part B.

A) Draw the S/I diagram for a large country which has a current account deficit and the corresponding graph for the rest of the world. How do you know it is a deficit? Illustrate the effects of a decrease in the price of capital in the rest of the world. Explain why the curve(s) moved as drawn. What happens to the level of investment in both countries, the level of saving in both countries, the deficit, and the world interest rate?

B) Draw the S/I diagram for a large country which has a capital financial account deficit and the corresponding graph for the rest of the world. Illustrate the effects of a temporary positive supply shock. Explain why the curve(s) moved as drawn. What happens to the level of investment in both countries, the level of saving in both countries, the domestic capital financial account, and the world interest rate?