

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 16-point question should take 8 minutes. Because of the class that follows your class, I cannot give you extra time.

1) (12 points) Answer EITHER Part A OR Part B.

A) The President of a university announces to the local media that the university was able to construct its sports complex at a lower cost than it had previously projected. The president argues that the university can purchase a yacht for the president at no additional cost. Would economic analysis of the situation result in the same conclusion? Explain your answer using economic terms.

B) I feel that everybody in this class is smart enough to earn an A in this course. However, few of you are earning an A. This fact can be explained using economic theory. Explain why it makes economic sense that some people do not earn an A.

2) (12 points) Answer EITHER Part A OR Part B.

A) When we calculated the autonomous expenditure multiplier, a.k.a. the multiplier, we assumed there was no income tax. How would an income tax affect it. (It is easiest to explain the process and see what an income tax would do to it.)

B) Why does the AD curve slope downward?

3) (14 points) Answer EITHER Part A OR Part B.

A) We use real GDP per capita as a measure of how well off a country is. There are many problems with this. Briefly explain TWO of them.

B) Briefly explain TWO problems caused by economic growth.

4) (14 points) For EITHER creative destruction OR limiting protectionism, explain how that helps economic development and economic growth.

5) (16 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for Mountain Dew. Explain why the curve(s) moved as drawn.

A) Summer arrives.

B) The price of aluminum increases.

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

A) Illustrate on the supply and demand for money, an increase in the price level. Explain why the curves moved as drawn.

B) Using the balance sheet to the right, determine the value of the missing entry. Show all work. Determine if the bank has excess reserves or is short reserves. Show all work. Assuming the money multiplier works to its fullest extent and works the same for increasing and decreasing the money supply, what is the ultimate change in the money supply if banks loan out all they can or reduce the loans to meet the shortage of reserves. Briefly state how you reached that conclusion.

Assets	Bank A	Liabilities & NW	
Cash	10	Checking deposits	360
Deposits at Fed	30	Savings deposits	140
Bonds	500	Loans	40
Loans	1000	Misc.	?
Misc.	200	Equity	900

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

A) Use the supply and demand for a good to show how a price ceiling hurts the consumer. Explain how it hurts the consumer.

B) Use a PPF (PPC) diagram to explain the opportunity costs of producing a good.