

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 and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. Therefore, a 18-point question should take 9 minutes. I will give a few extra minutes, but probably no later than about 5 or 10 after the hour.

1) (8 points) Define EITHER investment OR real GDP.

2) (12 points) Do EITHER part A OR part B.

A) What are the problems with high unemployment other than loss of production?

B) If the inflation rate was expected to 10% and it turned out to be 5%, then who would gain and who would lose? Briefly explain how you determined each.

3) (12 points) For EITHER the event in part A OR the event in part B, determine if it is a part of GDP. If it is, then tell me whether it is C, I, G, or X and tell me why. If it is not, then tell me why it is not.

A) You buy a used car.

B) I get a haircut at the barber's shop.

4) (16 points) Do EITHER part A OR part B.

A) Use the box on the right to calculate the CPI. How much inflation had there been? Show all work, and give a one-sentence explanation of what you did.

	P_t	P_0	Q_t	Q_0
Melons	\$2/melon	\$1/melon	50 melons	75 melons
Tea	\$4/lb	\$5/lb	4.5 lbs	5 lbs

B) Use the box on the right to calculate both the labor force participation rate and the unemployment rate. Show all work and give a one sentence explanation of what you did.

Classifica- tion:	Looking for a job	Employed	Home maker	Discouraged
# of people	50	950	800	200

5) (16 points) Do EITHER part A OR part B.

A) Is income a stock or a flow? Why did you say that? Make sure you define both stock and flow.

B) Explain why the CPI is biased upward.

6) (16 points) Do EITHER part A OR part B.

A) Why is saving so important to economic growth? Make sure you explain what causes economic growth and what how savings helps that growth

B) Why is the establishment of a system of property rights important for economic growth?

7) (20 points) Do EITHER part A OR part B based upon this proposal. Suppose that the following Social Security reform became law: All current Social Security recipients will continue to receive their benefits, but no increase will be made other than cost-of-living adjustments; Americans between age 40 and retirement not yet on Social Security can opt to continue with the current system; those who opt out must place what they would have "contributed" to Social Security into one or more government-approved mutual funds; and those under 40 must place their "contributions" into one or more government-approved mutual funds.

A) Would the people currently under 40 like this? Why or why not? Would the mutual fund industry like it? Why or why not?

B) Would the people between 40 and retirement like this? Why or why not? Would the people that currently own stocks like it? Why or why not?