

Write your name on the cover of the test booklet and nowhere else. 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 16-point question should take 8 minutes. I will allow some extra time, but I will not allow much.

1) (10 points) What happens to GDP for EITHER the event in Part A OR the event in Part B. Explain your logic.

A) A woman who makes a living charging for investment advice on her Internet Web site marries one of her clients, to whom she now provides advice at no charge.

B) A company that had been selling used firearms illegally finally gets around to obtaining an operating license and performing background checks as specified by law prior to each gun sale.

2) (10 points) Define EITHER the variable I OR the variable X. Give an example of it.

3) (16 points) Draw EITHER the Keynesian SRAS curve OR the classical SRAS curve. Explain why the curve takes its shape.

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

A) Suppose the PPF, a.k.a. PPC, is moving. Draw the effects upon the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn.

B) Suppose the economy starts as drawn in Figure #1. If the government does nothing, then how would the economy get back to equilibrium? Draw the movement(s) of the curve(s) and explain why the curve(s) moved as drawn.

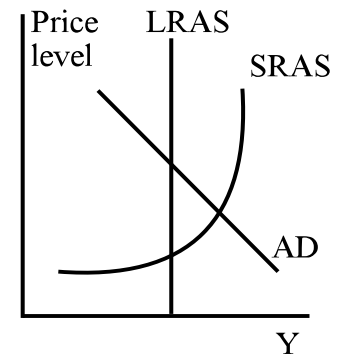


Figure #1

5) (18 points) Do EITHER Part A OR Part B.

A) What are two negative aspects of economic growth. Explain why these aspects hurt the economy.

B) If you knew National Income, NI, what information would you need to calculate Personal Income, PI? Explain how you would use this information.

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

A) Illustrate an increase in government spending on the  $45^\circ$ , a.k.a. Keynesian Cross, diagram. **Given your diagram**, what is the value of the autonomous expenditure multiplier? Explain why the curve(s) moved as drawn and how you estimated the multiplier.

B) We assumed that the MPC is constant. We conclude that the APC is not constant. Define both MPC and APC. Explain why a constant MPC will not cause APC to be constant.

7) (28 points) Do EITHER Part A OR Part B.

A) Developing countries desire to have GDP per capita grow. What two policies can they implement to stimulate this growth? How would these policies help them to grow?

B) Suppose Congress proposed to increase the length of time a patent is good for, by 50%. Explain both the advantages to the public and the disadvantages to the public of this law change. Would the benefits outweigh the costs? Explain your logic.

8) (32 points) Illustrate EITHER the event in Part A OR the event in Part B on BOTH the LRAS/SRAS/AD diagram and the  $45^\circ$ , a.k.a. Keynesian Cross, diagram. Show the SAME event on both diagrams and explain why the curves moved as drawn.

A) The marginal propensity to consume increases.

B) Oil prices increase.