

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 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. I will allow some extra time, but I will not allow much.

1) (10 points) Do EITHER Part A OR Part B.

A) Why is the concept of “opportunity costs” an important concept to understand? Give an example of a case where many people forget to include some of the opportunity costs.

B) What have been the opportunity costs of the war with Iraq? Mention at least two.

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

A) The required reserve ratio for Russian banks is 20%. What is the money multiplier for Russia? If it is larger than the USA’s money multiplier then explain the economic reason why it is larger. If it is smaller, then explain the economic reason why it is smaller.

B) Draw the Laffer Curve. Explain why it is important in economics.

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

A) What is the difference between income and wealth? Use the terms “stock” and “flow” in your explanation.

B) On Dec. 4, 2003, *The Economist* published an article on their web page which argues that the government should change the nature of its regulations on industry. What do you think they feel should be the main emphasis of government regulations? Explain the economic reasoning behind your choice. (Your grade will depend upon how you argue, not your choice of emphasis.)

4) (16 points) Draw EITHER the event in Part A OR the event in Part B on the supply and demand for **orange juice**. Explain the movement(s) of the curve(s).

A) There is an increase in demand for **fresh oranges** in the grocery store.

B) The government puts a tax on fruit juices.

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

A) What do you feel is the best way to solve the social security problem? Explain how your proposal would solve the problem.

B) Illustrate an increase in population on the PPC, a.k.a. PPF, for computers and oranges. Explain why the curve moves as drawn, or if it does not move, then explain why it does not move.

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

A) Draw the Keynesian LRAS/SRAS/AD diagram. Explain why the SRAS curve takes its shape.

B) If I gave you NDP and I asked you to calculate PI, what other numbers would you need and how would you use them? (For example, if you needed the weight of Mars, you would say that $PI = NDP - \text{weight of Mars}$.) Make sure you tell me what the initials stand for.

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

A) What is wrong with this argument? “When there is a surplus of a product, prices drop. This causes supply to decrease and demand to increase. As we can see by moving those curves, the price ends up back where it had been.”

B) What is wrong with this argument? “Rent controls and other price ceilings help the consumer.”