

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 160 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I can give some extra time, but not much.

1) (8 points) Define EITHER underemployment OR human capital.

2) (12 points) For EITHER the person in Part A OR the person in Part B, determine if that person is classified as unemployed. Tell me what has happened to the unemployment rate. Explain your logic. If they are, then tell me which of the four types of unemployment they are. If they are not classified as unemployed, then tell me why they are not unemployed.

- A) I retire at age 55. (Yeah, right. Not on what I get paid.)
- B) A stay-at-home dad re-enters the workforce.

3) (12 points) Answer EITHER Part A OR Part B.

- A) Economists argue that inflation does little damage to the economy. Explain why they feel that.
- B) What unemployment rate would the US have at full employment? Why is that not zero?

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

- A) What is creative destruction, and why does it help economic growth?
- B) Why do open economies grow faster? Give at least two reasons.

5) (14 points) Answer EITHER Part A OR Part B.

- A) Write the formula for calculating the CPI. If we said prices have gone up 10%, does this mean all prices have gone up that amount? Briefly explain your logic using the equation you wrote.
- B) Suppose the CPI for 2001 was 200 and the CPI for 2002 was 214. What was the inflation rate during 2002? Briefly explain how you did the calculation.

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

- A) Developing countries complain about using real GDP per capita as a measure of how well off the country is. They cite several problems with it. Explain THREE of the problems.
- B) For each of the variables in $C + I + G + X$, state what that letter represents and give an example of it.

7) (20 points) For EITHER the pair of solutions in Part A OR the pair of solutions in Part B, determine which of those two solutions you would use. Assume you can only choose those two solutions. Explain why you chose that solution and why you did not choose the other solution. Economic arguments are stronger than other arguments.

- A) Decreasing the benefits paid out or eliminate the cap on earnings.
- B) Increase the tax rate or allow more immigration.