

Write your name on the cover of the test booklet and on an otherwise blank page of the Excel file and nowhere else. Enclose this sheet with the booklet. E-mail the Excel file to wcsaplar@bethanywv.edu. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 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. Because of the class that follows your class, I cannot give you extra time.

1) (10 points) For EITHER the equation in Part A OR the equation in Part B, determine if it is stochastic or deterministic, and whether it is institutional, identity, behavioral, or technological. Briefly explain your logic.

A)  $g_y = g_T + w_k g_k + w_N g_N$

B)  $I = 100 + 0.3(Y - Y_{-1}) - 1000R + u$

2) Suppose the economy is described by  $C = 200 + (4/5)(Y_{-1} - T)$ ,  $T = (1/4)Y$ ,  $I = (1/2)(C - C_{-1})$ ,  $G = 600$ ,  $X - M = 400 - 0.2Y$ .

A) (18 points) Find the short-run multiplier. Show all work.

B) (10 points) Use the spreadsheet to determine the baseline, long-run level of GDP if last year's GDP was 1200 and  $Y_{-2}$  was 0. (I realize 0 is unrealistic, but use it anyhow.) Plot the time path of GDP. Is the time path of GDP a damped oscillation, explosive oscillation, monotonic convergence, or monotonic explosion. Explain your logic.

C) (10 points) Use the spreadsheet to determine the long-run level of GDP if last year's GDP was 1200,  $Y_{-2}$  was 0, and G goes to 660 for eternity. Plot the time path of GDP. What is the long-run multiplier? Explain your logic.

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

A) We derived a more realistic version of the money supply curve. Draw the curve. Explain why it has that slope and why the slope changes.

B) State the quantity theory of money. What is the big complaint some economists have about it?

4) (18 points) Do EITHER Part A OR Part B.

A) Illustrate an increase in  $r_b$  on the MS/MD diagram. Explain why the curve(s) moved as drawn. Make sure you define  $r_b$ .

B) Illustrate an increase in  $r_d$  on the MS/MD diagram. Explain why the curve(s) moved as drawn. Make sure you define  $r_d$ .

5) (20 points) Do EITHER Part A OR Part B.

A) I predicted in class that the deficits of the current administration will cause economic slow down in the future. Explain my logic. A key step in my logic has not occurred yet. Explain why that step can take a long time to occur.

B) Explain the method most commonly used for calculating potential GDP. Explain why that is the most commonly used one.