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 150 points (to be scaled up to 225 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I can give extra time, but I will not give a lot of extra time.

1) (10 points each) For TWO of the following events, determine if it is part of GDP. If it is, then determine which part and explain your logic. If it is not, then explain why it is not part of GDP.
A) A person buys from you $4000 worth of stock and pays a brokerage fee of $100.
B) You use the $4000 to buy used copies of your textbooks from the bookstore.
C) You pay a friend $40 to clean your room.

2) (10 points) Answer EITHER Part A OR Part B.
A) What is a *supply shock*? How can it cause inflation?
B) Why should S = I?

3) (12 points) Answer EITHER Part A OR Part B.
A) What was the big difference between the assumptions of the *Classical School* and the assumptions which Keynes made? Why is that difference important?
B) When the PPF (PPC) moves, it causes one other curve on another graph to move. Which curve is it and why does it move? When the C+I+G+X line moves, it causes a line on another graph to move. Which curve is it and why does it move?

4) (12 points) Answer EITHER Part A OR Part B.
A) Suppose the quality of cancer treatments improve, so patients undergo fewer and cheaper treatments. What will happen to GDP? Explain your logic. Suppose air quality improves significantly, but there are no effects on aggregate production or the market prices of final goods and services. What will happen to GDP? Explain your logic.
B) Suppose that GDP is $13,000, depreciation is $1,000, indirect business taxes are $800, corporate taxes are $2,200, government transfers to individuals is $900, retained earnings are $1,100, and personal income taxes were $900. If all other variables in the calculations are zero, then calculate PI. Show all work and briefly explain how you got the numbers.

5) (12 points) For EITHER *letting creative destruction run its course* OR *limiting protectionism*, explain why that will help economic development.

6) (12 points) What do you consider to be the biggest negative aspect of economic growth. Explain how economic growth causes that problem.

7) (12 points) Answer EITHER Part A OR Part B.
A) The book says that a change in the marginal business and/or sales tax will move the SRAS curve, but a change in the marginal income tax will move the AD curve. Explain why this is true.
B) Draw the "Modern SRAS" curve. Explain why it takes its shape.

8) (20 points) Answer EITHER Part A OR Part B.
A) Illustrate a recessionary gap on the SRAS/LRAS/AD diagram. Illustrate what will happen to bring us back to full employment if the government does nothing. Explain how you knew there was a recessionary gap and why the curve(s) moved as drawn.
B) Illustrate an increase in the price of oil on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn.

9) (40 points) Illustrate EITHER the event in Part A OR the event in Part B on BOTH the SRAS/LRAS/AD diagram AND the 45° diagram, a.k.a. the Keynesian Cross diagram. Use the SAME event on both diagrams. Explain why the curve(s) moved as drawn. What happened to the equilibrium GDP and price level?
A) The property tax increases.
B) Technology improves.