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 100 points (to be scaled up to 130 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (16 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for CDs at Tower Records.
A) The price of oil (used to produce plastic) goes up.
B) Asian Man Records has a three-day sale. If you call them during business hours (9:00 - 5:00 PST) today, Tuesday, or Wednesday, you can get huge savings (but not if you buy on line).

2) (16 points) Answer ONE of the following parts. (Yes, that is ONE out of three.)
A) Illustrate on the 45°, a.k.a., Keynesian cross diagram, an increase in the marginal propensity to consume (MPC.) Explain why the curve(s) moved as drawn.
B) Draw the "Modern" SRAS Curve. Explain why it takes its shape.
C) Draw the AD Curve. Explain why it takes its shape. (Remember, this is the tricky one.)

3) (10 points) Answer EITHER Part A OR Part B.
A) What is the economic reason why at most universities and colleges, business professors and medical professors get paid far more than art professors and English professors. Explain your logic.
B) Many economists complain about using ethanol to fuel cars because ethanol comes from corn. Why might increased use of ethanol cause the price of wheat to increase?

4) (16 points) Answer EITHER Part A OR Part B.
A) Define *adverse selection* and give an example of it. Explain one method banks reduce the problem.
B) In the second part of the final, you will be assuming that increasing government spending will change the GDP this year. Why might this be a false assumption? Explain your logic.

5) (20 points) Answer EITHER Part A OR Part B.
A) What is the problem with Social Security? If you were in charge of reducing the problem, what would be the first step you would do? Explain why that would be your first step and how that would reduce the problem. (Obviously, one step by itself would not solve the problem.)
B) We use real GDP per capita as a measure of how well off a country is. Explain two problems with doing that.

6) (22 points) Answer EITHER Part A OR Part B.
A) Draw the supply and demand for a good which creates a negative externality like gasoline. Use the diagram to show that we will not have the socially optimal amount of gasoline used. What should be done about it? Explain how that would reduce the problem.
B) Price floors are supposed to help the producer. Draw the supply and demand for a product like tobacco which has price floors. Explain the problems it causes and how it may hurt the farmers.