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 160 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) (10 points) Answer EITHER Part A OR Part B.
A) In general, if the government causes the price and quantity to be at a point other than where supply crosses demand, a black market forms. Explain why they form.
B) Why is providing a legal system an economic reason for having a government?

2) (16 points) Answer EITHER Part A OR Part B.
A) Suppose you expect inflation rate of 4%. Last year's CPI was 300 and this year's CPI is 309. Who gains and who loses? Explain your logic.
B) Why doesn't high, but fully expected, inflation cause many problems? What is one of the two problems caused by it?

Income	Ra te
$0 - $40K	10%
$40K - $90K	20%
$90K - $150K	30%
>$150K	40%

3) (16 points) Answer EITHER Part A OR Part B.
A) Use the table to the right to calculate the total taxes paid, marginal tax rate, and average tax rate for somebody earning $100,000/year. Show all work and briefly explain what you did.
B) What are *public goods*? Why are they an economic argument for government intervention in the market?

4) (18 points) Answer EITHER Part A OR Part B.
A) What is the problem facing Social Security? How would raising the income cap (without increasing benefits to those above the cap) reduce the problem? Would you use that method to solve the problem. Why or why not?
B) What is the problem facing Social Security? How would increasing the return on the "lock box" be achieved and how will it reduce the problem? Would you use that method to solve the problem. Why or why not?

5) (18 points) Answer EITHER Part A OR Part B.
A) I heard on the news that 60% of major cities in the USA had their unemployment rate drop in September of this year. However, they noted that lower unemployment rates might be bad news for the economy. Why might it be bad news right now? If a person quits their job because they do not like their boss, which category of unemployment is that? Briefly explain your logic for both questions.
B) Many developing countries have low official unemployment statistics. For example, according to the CIA Factbook, in 2008 the unemployment rate in Bangladesh was 2.5%. What are they not counting which really should be counted? If a person is unemployed because it is now the fall and they work at an outdoor swimming pool, then what category of unemployment are they? Briefly explain your logic for both parts.

6) (22 points) Answer EITHER Part A OR Part B.
A) Draw the supply and demand diagram for gasoline. Prove that because of the pollution it creates, we have too much gasoline being used. Draw the method we said is the best method for reducing the problem of pollution. Explain why the curve(s) moved as drawn and how the optimal situation is achieved.
B) Draw the supply and demand diagram for bread. Put a price ceiling on it. Explain the problem it causes and prove that it hurts the consumer.