

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

A) Explain how the government spending increase of \$1,000,000 will cause GDP to go up by more than that amount.

B) If your income is \$1000 and your consumption function is given by $C = 30 + 0.9Y$, then how much are your MPC and APC? Show all work and briefly explain what you did.

2) (12 points) Answer EITHER Part A OR Part B.

A) Why should $S = I$?

B) Why does the LRAS Curve look as we drew it?

3) (16 points) Answer EITHER Part A OR Part B.

A) What is meant by *limiting protectionism* and how does that help a country develop?

B) We use real GDP per capita as a measure of how well off a country is. What are two problems with doing that?

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

A) Illustrate an increase in government spending on the 45° , aka Keynesian Cross, diagram. Explain why the curve(s) moved as drawn. What happens to GDP? Do NOT worry about the size of the multiplier.

B) Illustrate an increase in interest rates on the 45° , aka Keynesian Cross, diagram. Explain why the curve(s) moved as drawn. What happens to GDP?

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

A) According to a UN document I have, the Democratic Republic of Congo's real GDP per capita using PPP is \$281. Why is that probably underestimating the output of the country? Give at least two reasons. What is meant by "using PPP"?

B) Each year, Johan typically does all his own landscaping and yard work. He spends \$200 per year on mulch for his flower beds, \$225 per year on flowers and plants, \$50 on fertilizer for his lawn, and \$245 on gasoline and lawn care maintenance. It takes him 100 hours to do all this work each year. If he could earn \$10/hour at work, what is the total cost of his yard work? How much does he contribute to GDP each year? Show all work and briefly explain your answers to each part.

6) (22 points) Answer EITHER Part A OR Part B.

A) Illustrate an increase in the marginal propensity to consume on the SRAS/AD/LRAS diagram. Explain why the curve(s) moved as drawn. What happens to inflation and GDP?

B) Illustrate an increase in the wage rate on the SRAS/AD/LRAS diagram. Explain why the curve(s) moved as drawn. What happens to inflation and GDP?