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 14-point question should take 7 minutes. I cannot give extra time because some students have a class after your class.

Unless I specify otherwise, use the "Modern SRAS" line when drawing the SRAS curve.

1) (10 points) For EITHER *creative destruction* OR *limiting protectionism*, explain how that helps the economy to grow.

2) (10 points) Answer EITHER Part A OR Part B.
A) How do patents help the economy to grow?
B) Given what happened in the 1970s and 1980s, I am guessing that the average growth rate of real GDP at full employment dropped a few years ago from 2.5% to 2.0% because of actions of the Bush and Obama Administrations. Why does that make such a big difference? In-other-words, suppose you are going to live another 70 years. If these growth rates continue, how many times would real GDP double under the two scenarios? BRIEFLY show all work and explain what you did.

3) (14 points) Answer EITHER Part A OR Part B.
A) Explain why an increase in the sales tax will have a different effect upon the SRAS/LRAS/AD diagram than an increase in the income tax. There is no need to draw the diagram.
B) Draw the classical SRAS curve. Explain why it takes its shape.

4) (14 points) Answer EITHER Part A OR Part B.
A) If you knew NI and wanted to calculate PI, what additional data would you need? Explain why you would need it and how you would use it.
B) Explain TWO problems with using real GDP per capita as a measure of how well off we are.

5) (16 points) Illustrate EITHER the event in Part A OR the event in Part B on the Keynesian Cross, a.k.a. 45°diagram. Explain why the curve(s) moved as drawn. What happens to the GDP?
A) Interest rates go up.
B) The marginal propensity to save increases.

6) (18 points each) Do TWO of the following parts on separate graphs.
A) Illustrate the effects of an increase in the government spending on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?
B) Illustrate the effects of an increase in the price of oil on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?
C) Illustrate the effects of an increase in the wage rate on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?