

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) Suppose a friend of yours bought a Rolls Royce. It cost the dealer \$50,000 and your friend paid \$56,000. How much did GDP go up? Which part of GDP changed? Explain your logic for both parts.

B) What is wrong with the statement, “when inflation is higher, people cannot afford as much.”?

2) (10 points) For EITHER increased human capital OR opening an economy up more, explain how that quality will help the economy to grow faster in the long run.

3) (14 points) All statistics have problems which make them less useful than we would like them to be. For EITHER using real GDP per capita to measure how well off a country is OR using the unemployment rate to measure the unused human resources, explain TWO problems with those measures. Make sure you explain why those are problems.

4) (14 points) Answer EITHER Part A OR Part B.

A) Explain why I feel most sales taxes are regressive.

B) Explain why a slower growth of GDP can make a big difference in the long run. For example, suppose the growth rate drops from 2.5% to 2.0%.

5) (16 points) Answer EITHER Part A OR Part B.

A) Suppose the table to the right is the current tax schedule. Find the total taxes paid, average tax rate, and marginal tax rate for a person earning \$50,000. Show all work.

B) Suppose that at the start of the year the CPI was 400 and people were expecting a 8% inflation rate. At the end of the year, the CPI was 420. What was the inflation rate? Show all work. Who is hurt by the inaccurate prediction? Explain your logic.

Bracket	Rate
\$0 - \$20,000	15%
\$20,000 - \$40,000	20%
\$40,000 - \$90,000	25%
>\$90,000	30%

6) (18 points) Answer EITHER Part A OR Part B.

A) What is the problem facing Social Security? Some people say we should reduce the benefits paid to those on Social Security. How will this reduce the problem? Would you use that method to reduce the problem? Why or why not?

B) What is the problem facing Social Security? Some people say we should raise the return on the Social Security Lock Box. How would this be achieved? How will this reduce the problem? Would you use that method to reduce the problem? Why or why not?

7) (18 points) Answer EITHER Part A OR Part B.

A) Suppose that GDP is \$1490. The buildings deteriorated in value by \$5. The firms got \$20 worth of business subsidies, paid \$50 worth of indirect taxes, paid \$130 of corporate taxes, and had \$15 of retained earnings. People got \$25 of transfer payments from the government and paid \$400 worth of income tax. Use this data to calculate NDP, NI, PI, and DPI. If you need any information not given, assume it is zero. Show all calculations and BRIEFLY explain what you did.

B) Suppose a country has 1200 people working, 300 people not working but looking for a job, 400 stay at home parents, and 100 people who want to work but quit looking. Calculate the labor force participation rate and the unemployment rate. Show all work and briefly explain what you did.