Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. The Excel file will be handed in via Moodle. Your name will only appear on a page of the file that has nothing else on it. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes (but you can take the full 2 hours.) Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5 minutes.

1) (10 points) Answer EITHER Part A OR Part B.
A) What is meant by lags in monetary policy? Which lag is longer for monetary policy than for fiscal policy? Explain your logic.
B) We put "loans" on both sides of a bank's balance sheet. Explain what the "loans" on the Liabilities & Net Worth side represents.

2) (12 points) Answer EITHER Part A OR Part B.
A) When examining whether the fiscal policy of the government is a good policy, should you concentrate on the budget deficit/surplus or the full employment budget deficit/surplus? Explain your logic.
B) What is meant by "government capital"? Explain why it is important when looking at the government debt.

3) (18 points) Answer EITHER Part A OR Part B.
A) What is the equation for the money multiplier? Explain the economic reasons as to how changes in cu and res affect the size of the money multiplier..
B) Use the balance sheet to the right to deter-mine how much excess reserves the bank has. Show all work and briefly explain what you did. In your test booklet, illustrate the effects of the bank's loaning out its excess reserves on the balance sheet. Briefly explain what you did. If nobody keeps cash on hand and the banks keep no excess reserves, then what will be the ulti-mate change in the money supply? Explain your logic and show all work.

Assets		Liabilities & Net Worth	
Cash	20	Checking accts	160
Deposits @ Fed	10	Savings accts	100
Loans	270	Miscellaneous	40

4) (20 points) Answer EITHER Part A OR Part B.
A) What is Ricardian Equivalence? Explain two economic reasons why it might not hold.
B) From an economic efficiency view, i.e. **not** fairness or any other criteria, is a tax on movies or a tax on gasoline better? Explain your logic. What are the automatic stabilizers? Why are they called that?

5) (40 points) Use the data on the Excel file to forecast sales through October 15, 2010. What percentage of the company's sales are normally done in the first two weeks of January? How did you get that number? Seasonally adjust the sales for the first year.