Wilfrid W. Csaplar Jr., Ph.D.   Economics 162   Exam #2   2012/10/18

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 150 points (to be scaled up to 210
points) and is scheduled to take 75 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) Give an example of EITHER frictional unemployment OR structural unemployment.
Explain why your example fits the definition.

2) (10 points) For EITHER the event in Part A OR the event in Part B, determine how much GDP
changed and which part of GDP was affected. Explain your logic. If some of information does not
change GDP explain why you excluded it.
A) You buy $1000 worth of stock in Ford and pay $10 worth of commissions.
B) You buy $500 worth of Apple products which cost the store $350. (All Apple products are made in
China.)

3) (14 points) Answer EITHER Part A OR Part B.
A) In this course, we assume that faster growth of the Y_{FE}, full employment level of GDP, is an
improvement. Explain two harmful results of faster GDP growth. Explain how growth causes those
problems.
B) China basically does not enforce intellectual property rights. What does that mean? Explain why that
will hurt them in the long run.

4) (14 points) For EITHER the aspect in Part A OR the aspect in Part B, explain what it means and how
that helps economic development, i.e., the economy to grow more.
A) letting creative destruction run its course.
B) having an educated population

5) (14 points) Explain why EITHER the AD Curve OR the LRAS Curve takes its shape. Make sure you
draw it.

6) (16 points) Answer EITHER Part A OR Part B.
A) The unemployment rate is the same as it was on the day Obama took office. However, the labor force
participation rate dropped significantly from 66.2% to 63.6%. What does that mean? What did people
do to cause that change? Explain your logic.
B) Every statistic has its problems. What are two problems which could result in the unemployment rate
giving a misleading indication? Explain how that occurs.

7) (16 points) Answer EITHER Part A OR Part B.
A) Suppose the price level at the start of the year was 400 and at the end of the year it was 412.
Calculate the inflation rate showing all work. If people had expected at the beginning of the year that the
inflation rate would be 6%, then who got hurt by the inflation? Explain your logic by mentioning two
groups of people who are hurt.
B) What are the two costs of high inflation which was predicted accurately? Explain how high inflation

causes those two costs.

8) (16 points) Answer EITHER Part A OR Part B.
A) What information do you need to calculate NI if you already had NDP? Explain <u>why</u> you add or subtract those items.
B) Every statistic has its problems. What are two problems which could result in the GDP giving a misleading indication? Explain how that occurs.

9) (18 points) Answer EITHER Part A OR Part B.
A) What is the problem facing Social Security? How would increasing the retirement age for receiving Social Security benefits reduce the problem? Would you do it? Why or why not?
B) What is the problem facing Social Security?   How would raising the cap on income which is subject to the Social Security tax reduce the problem? Would you do it? Why or why not?

10) (20 points) Illustrate EITHER the event in Part A OR the event in Part B on the SRAS/LRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to the price level, GDP, and the unemployment rate?
A) The income tax rate goes up.
B) A new technology is invented.