

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 150 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) Use economic theory and language to explain why people are increasingly shopping online rather than in stores.

B) Use economic theory and language to explain why people fighting world hunger usually oppose the increased use of ethanol.

2) (12 points) Answer EITHER Part A OR Part B OR Part C. (Yes, that is one of three.)

A) If $C = 200 + .8(Y-T)$ and your disposable income was 5000, then what are your MPC, MPS, APC, and APS? Show all work. If there is no work, then briefly explain how you got the answer.

B) Explain why the AD curve slopes down. Give all three reasons.

C) When we calculated the government spending multiplier, we assumed what about interest rates? If we relax that assumption, then what happens to the size of the government spending multiplier? Why does that occur?

3) (14 points) Answer EITHER Part A OR Part B.

A) What are *public goods*? Why are they an economic reason for government?

B) Draw a PPF for books and pens. Illustrate the effects of an increase in population. Explain why the curve moved as drawn.

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

A) What is the FDIC? How does its existence create a *moral hazard* problem?

B) Some economists feel that expansionary fiscal policy won't affect the economy. Explain ONE theory as to why GDP may not be changed.

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

A) Draw the Phillips Curve. Explain why it takes its shape.

B) Draw the Phillips Curve. Explain what would move it down/left and why that event would cause it to move.

6) (16 points) Answer EITHER Part A OR Part B OR Part C. (Yes, that is one of three.)

A) What is the problem facing Social Security? What are the two big causes of this problem? One proposal for reducing the problem is to do a means test on the Social Security benefits. How would this reduce the problem? Would you do that? Explain your logic.

B) In March 2013, employment in the USA went down 206,000 but the unemployment rate went down 1/10th of one percentage point. How could there be fewer employed people but have the unemployment rate drop?

C) If the initial CPI was 500 and a year later it was 510, then how much inflation was there? Show all work. If people expected 3% inflation, then who was hurt by the inflation? Explain your logic.

7) (18 points) Illustrate the effects of EITHER the event in Part A OR the event in Part B on the supply and demand diagram for solar panels. Explain why the curve(s) moved as drawn. What happened to the price and quantity sold?

A) A new technology lowers the cost of production. (This has recently occurred.)

B) The wage rate paid to workers in the solar panel factories increases.