

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) (6 points each) Use the bank's balance sheet to the right to answer TWO of the following questions.

A) How much should be in the entry of "Other"?

Briefly state how you know that.

B) How much excess reserves does this bank have?

Briefly state how you know that.

C) What do the "Loans" on the right-hand side represent? Briefly state how you know that.

Assets		Liabilities & NW	
Cash	5	Check Accts.	40
Dep @ Fed	7	Saving Accts.	30
Loans	90	Loans	2
Other	?	Equity	35

2) (10 points) Answer EITHER Part A OR Part B.

A) Suppose the government's budget has a surplus of \$35 billion and its full employment budget has a deficit of \$4 billion. Is the economy in an inflationary gap or a recessionary gap? Explain your logic. Given the gap you named, do you think the government's fiscal policy is good or not? Explain your logic.

B) Explain what *government capital* means and why we are concerned about it when we are discussing the budget deficit/surplus.

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

A) Given the table to the right, if a person earns \$50,000/year, then what are their marginal tax rate, total taxes paid, and average tax rate? Show all work and if there is no work, then briefly explain your answer.

B) Some people feel that Ricardian Equivalence may not hold because the elderly may not save for future taxes. What is the potential flaw with this logic?

Bracket	Rate
\$0 - \$30,000	10%
\$30,000 - \$60,000	20%
> \$60,000	30%

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

A) I know somebody who is keeping most of their money at home. Suppose a large number of people decide to do this. Explain how this decision affects the monetary base, the money multiplier, and the money supply.

B) Draw a balance sheet for a bank and a balance sheet for the Fed. Write the entries for the Fed buying a \$5000 bond from the bank. Briefly explain each entry.

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

A) Explain why a high interest rate causes the debt-GDP ratio to grow. Does the equation for the growth rate of the debt-GDP ratio have the growth rate of real or nominal GDP in it? Why?

B) Given the side-effects of taxes, would a sales tax on food (both in the grocery store and in a restaurant) or an income tax be a better tax? Only examine them from the views of economic incentives, not from an equity point of view.

6) (34 points) Use the data in the tab "Season" of the [Excel file](#) to answer this question. Seasonally adjust the data and use that information to forecast through Nov-Dec in 2012. If the firm does \$3000 worth of sales this year, then approximately how many sales would you expect they would have in September-October? Briefly explain how you reached that conclusion.