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 deficit of $40 billion and its full employment budget has a surplus of $5 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 the primary deficit means and why we are concerned about it.

3) (14 points) Answer EITHER Part A OR Part B.
A) What assumption does Ricardian Equivalence make that you feel is the least realistic? Explain why you feel may not be realistic.
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?

4) (14 points) Answer EITHER Part A OR Part B.
A) Explain how an increase in the discount rate affects the monetary base, the money multiplier, and the money supply.
B) What are the lags in monetary policy? Assuming they exist and assuming they play an important role in determining the type of monetary policy used, is it better for the Fed to use a rule or discretion? Explain your logic.

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 entertainment (like music, movies, theme parks, etc.) 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 the first half of August in 2012. If the firm does $2000 worth of sales this year, then approximately how many sales would you expect they would have in the first half of July? Briefly explain how you reached that conclusion.