

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 160 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) Why aren't stocks and bonds counted as investment in this course when calculating GDP?

B) I bought shoes made in Brazil. What happened to GDP? Explain your logic.

2) (12 points) For EITHER the event in Part A OR the event in Part B, determine what happens to the unemployment rate and the labor force participation rate. State your logic and mention what category of unemployment is affected.

A) Chrysler laid off some people for two years starting in 2008.

B) A stay-at-home dad decides to re-enter the job market.

3) (12 points) For EITHER *promoting competition* OR *public goods*, state what the phrase means and explain why it is an economic reason for having a government.

4) (12 points) Answer EITHER Part A OR Part B.

A) Explain the difference between *voting* and *spending in the market*. Give an example of where voting will give a more desirable result for the society. Explain how you can tell it gives the better result.

B) I argue that most sales taxes are slightly regressive. Explain my logic making sure you define a regressive tax.

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

A) Use the table to the right to calculate the marginal tax rate, total taxes paid, and average tax rate for a person who earns \$100,000 a year. Show all work. If there is no work briefly explain how you found the answer.

B) Suppose the CPI was 400 at the beginning of the year and 420 at the end of the year. What was the inflation rate? Show all work. If people had expected 7% inflation, then who is hurt by the actual inflation? State one group of people and explain your logic.

Bracket	Rate
\$0 - \$20,000	15%
\$20,000-\$50,000	25%
\$50,000-\$90,000	30%
\$90,000 - \$150,000	40%
>\$150,000	50%

6) (18 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for a good which creates a negative externality. Use the diagram to prove that the market will not produce at the socially optimal (efficient) place. Explain why this occurs. Do not worry about fixing the problem.

B) Draw a supply and demand diagram cherries where supply is relatively steep and the demand is relatively flat. Illustrate the effects of a tax on cherries. Explain why the curve(s) moved as drawn. Given your diagram, who pays most of the tax? Explain how you can tell.

7) (20 points) Answer EITHER Part A OR Part B.

A) What is the problem facing Social Security? Some people propose reducing the problem by eliminating the cap on income which is taxable by Social Security. How would that reduce the problem? Would you do that as part of your solution? Explain your logic.

B) What is the problem facing Social Security? Some people propose reducing the problem by increasing the Social Security tax. How would that reduce the problem? Would you do that as part of your solution? Explain your logic.