

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) (8 points) For EITHER Personal income tax payments OR Social Security benefits paid out, if we were calculating GDP and then using that to calculate NDP, NI, PI, and DPI, then when would you add or subtract it? Explain why you would add or subtract it and why you would do it at that point rather than at another point.

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

A) I saw on ABC News that store retail cards typically charge around 24% interest and credit cards typically charge around 16% interest. Approximately how long would it take for a balance on each of those cards take to double? Show all work. (They concluded that if you carry a balance, you should not use store retail cards. They should have concluded that if you carry a balance, you should not use a credit card either.)

B) Give two reasons why it is important to start saving for retirement as soon as you get your first job.

3) (12 points) Answer EITHER Part A OR Part B.

A) Congress will be deciding whether or not to approve the TPP. (TPP is a free trade area between the USA and 11 other countries on the Pacific Ocean.) If it passes, would that help or hurt our economy? Explain your logic.

B) Explain how creative destruction helps the economy.

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

A) Explain how we compare GDP across countries with different currencies.

B) If a consumption function is given by  $C = 1000 + .8*(Y-T)$ , the what are the MPC, MPS, APC, and APS for a person earning \$50,000. Show all work. If there is no work, state how you found it.

5) (12 points) When we calculated the government spending multiplier, a.k.a. the multiplier or autonomous expenditure multiplier, we implicitly made several assumptions. For EITHER the assumption that there is no income tax OR the assumption that there are no imports, explain how relaxing that assumption would affect the size of the multiplier. (To relax an assumption means to no longer make that assumption. Therefore there is an income tax or there are imports.)

6) (14 points) For EITHER the breakdown of the family OR increased urbanization, explain how a greater growth rate of GDP can cause that.

7) (16 points each) Illustrate the effects of **TWO** of the following events on the Keynesian Cross, a.k.a. 45° diagram for the USA. Explain why the curve(s) moved as drawn. Use separate graphs for each part.

A) The marginal propensity to save increases.

B) Interest rates increase.

C) The Canadian GDP increases.