Wilfrid W. Csaplar Jr., Ph.D. Economics 350 Exam #4 Make Up 2015/12/5

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 14-point question should take 7 minutes.

Remember to fill out course evaluations.

1) (14 points) For EITHER the event in Part A OR the event in Part B, determine how the event affects the monetary base, the money multiplier, and the money supply. Explain your logic.
A) The Fed increases the required reserve ratio.
B) People decide to keep less of their liquid money as cash.

2) (14 points) Answer EITHER Part A OR Part B.
A) Draw the balance sheets for both the Fed and a bank. Do not worry about putting in the starting values. Illustrate the effects the bank withdrawing $500 cash from its account at the Fed. Briefly state why you put the entries as you did.
B) Economists disagree on whether the Fed should use rules or discretion when doing monetary policy. Which do you think is best? Explain your logic.

3) (16 points) Answer EITHER Part A OR Part B.
A) Draw the diagram of the official exchange rate and the fundamental exchange rate for the USA, with the EU as the other country. Illustrate the effects of the EU's GDP increasing. Explain why the curve(s) moved as drawn. What happens to the money supply in the USA? Why does that happen?
B) Draw the diagram of the official exchange rate and the fundamental exchange rate for the USA with the UK as the other country. Suppose the money supply was to the left of the equilibrium. What happens to move the money supply and exchange rate back to the equilibrium? Explain the economic reasons why that occurs.

4) (20 points) Answer EITHER Part A OR Part B.
A) Suppose the government spends $500 per year, makes transfers of $450 - 1% of GDP per year, and pays $110 of interest per year. The tax revenue is 20% of GDP. If GDP is $4500, then how much is the government deficit or surplus. Suppose the full-employment level GDP is $5500. How much is the full-employment deficit or surplus? What is the primary deficit or surplus? Show all calculations. Is the government doing good fiscal policy? Explain your logic.
B) There are many qualities economists want in a tax. What was the only one we spent time discussing in this class? Given that quality, would economists prefer a corporate profit tax or an income tax? Explain your logic.

5) (36 points) Use the data in the Excel file exam4.xlsx to seasonally adjusted sales for all periods. Then forecast sales through the end of 2016. If their sales for 2016 were $1500, then how much would they expect to sell in March of 2016? Do all calculations in the Excel sheet. If you want to explain anything, then do it on the spreadsheet.