

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

A) Explain the value added method of calculating GDP. Why should that give the same result as the expenditure method? Explain your logic including stating how the expenditure method is done.

B) According to <https://www.statista.com/statistics/295444/germany-gross-domestic-product/>, the GDP of Germany was €3.3 trillion. Explain how an economist should convert that from euros to dollars.

2) (14 points) Answer EITHER Part A OR Part B.

A) Every statistic has problems with its definition which makes it less useful than we would like. There are at least four problems with using real GDP per capita as how well off a country is. Explain TWO of the problems.

B) Suppose you buy a shirt for \$50 and the store bought it from a company in Honduras for \$30. How much did the GDP for the USA go up? Which part(s) of GDP are affected? Explain your logic.

3) (16 points) Answer EITHER Part A OR Part B.

A) The book says that one of the keys to development is to “limit protectionism”. What does that mean? How does that help the country develop?

B) Why should you start saving for retirement the minute you get your first job? Explain two reasons.

4) (18 points) Draw the SRAS/LRAS/AD diagram with an upward-sloping SRAS curve. (It is not that shape, but we have not see what it does look like.) Illustrate EITHER the effects of the event in Part A OR the effects of the event in Part B. Explain why the curve(s) moved as drawn. What happens to real GDP and price level?

A) More factories were built last year.

B) Interest rates go down.

5) (10 points) EITHER explain why the AD curve slopes down OR explain why the LRAS curve is vertical.

6) (16 points) Draw the Keynesian Cross diagram, a.k.a. 45° diagram. Illustrate EITHER the effects of the event in Part A OR the effects of the even in Part B. Explain why the curve(s) moved. What happens to GDP?

A) The marginal propensity to save decreases.

B) The Canadian GDP goes down.

7) (14 points) Answer EITHER Part A OR Part B.

A) When we initially calculated the government spending multiplier, what value did we get? What does that number mean? Assuming that number is correct, how much would the government have to spend if they wanted to increase GDP by \$1000? Explain how you reached your conclusion.

B) Suppose a person has a consumption function of $C = 1000 + .8(Y-T)$ and \$10,000 in disposable income. What is her MPC, APC, MPS, and APS? Show all work. If there is no work, explain how you reached your conclusion.