Wilfrid W. Csaplar Jr., Ph.D. Economics 162 Final Exam Part 1 2018/12/12

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) I sincerely believe that if you are smart enough to get admitted to Bethany College, and you have a sufficient mathematics background, you can get an A in this course. However, few students get an A in the class. Use theory and terminology from economics to explain why few students get an A.
B) Use theory and terminology from this course to explain why some people do not attend the review sessions.

2) (12 points) Answer EITHER Part A OR Part B.
A) The book says that one of the keys to development is to "creative destruction". What does that mean? How does that help the country develop?
B) Give an example of structural unemployment. Explain why your example fits the definition.

3) (12 points) Answer EITHER Part A OR Part B.
A) What is meant by a Keynesian Liquidity Trap? Explain why it might mean that counter-cyclical monetary policy may not work.
B) What is meant by crowding out? Explain why it might mean that counter-cyclical fiscal policy may not work.

4) (14 points) Answer EITHER Part A OR Part B.
A) Give an example of moving money from M1 to M2. What happens to M1 and M2? Explain your logic. Why would somebody want to do that movement of money?
B) Draw a line through the point (1,6) with a slope of -2. What are the Y-intercept and Y-intercept?

5) (16 points) Answer EITHER Part A OR Part B.
A) Draw the supply and demand for French fries. There has recently been invented a way to make plastic from potatoes. (Unlike other plastic, it is biodegradable.) What would happen to the supply and demand for French fries if we start making a lot of plastic from potatoes? Illustrate that on the graph. Explain why the curve(s) moved as drawn. What happens to the price and quantity of French fries sold?
https://www.jamesdysonaward.org/2018/project/potato-plastic/
B) Draw the supply and demand for a product like coal which creates a negative externality. Use that diagram to prove the market will not produce the socially optimal amount of coal. You do NOT need to solve the problem.

6) (16 points) Answer EITHER Part A OR Part B.
A) Draw a PPF for cars and wheat. Find the point where the opportunity costs of a car is approximately two units of wheat. State how you know your point has that cost.
B) Draw a Laffer Curve. Explain how increasing a tax can bring in less revenue.

7) (18 points) Answer EITHER Part A OR Part B.
A) What is the problem facing Social Security? What are the two long-term problems which mean the problem will get worse for at least a decade? One of the proposed solutions to the problem is to increase the retirement age. How would that reduce the problem? Should that be part of the solution? Explain your logic.
B) What value did we initially calculate for the government spending multiplier? What does that number mean? What did we assume about interest rates? If we relax that assumption, then what happens to the size of the multiplier? Explain your logic.