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 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give some extra time, but not much.

1) (12 points) Answer EITHER part A OR Part B.
A) What are the three types of money demand? For ONE of them, which category of money does a better job at that, M1 or the items in M2 which are not in M1? Explain your logic.
B) When we used the quantity theory of money, we concluded that, in the long run, an increase in the money supply will have what effect? Explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.
A) Use the equation for the Endogenous Growth Model to explain the long-term impact of President George W. Bush's tax cut on interest, dividends, and capital gains. Explain why it would have that impact.
B) Use the equation for the Endogenous Growth Model to explain the long-term impact of President George W. Bush's tax cut on income. Explain why it would have that impact.

3) (12 points) Answer EITHER Part A OR Part B.
A) Why hasn't the velocity of M1, V1, been constant over the past half century? Explain your logic.
B) Since the 1960s, the liquidity has increased for many assets, especially the items in M2. What has that done to the demand form M1 and the velocity of M1? Explain your logic.

4) (14 points) Answer EITHER Part A OR Part B.
A) On the graph for the Solow Growth Model, we almost never drew k_G. What is it? How was it found?
B) In the Endogenous Growth Model equation, what can the government do to increase A? Why would that increase it?

5) (16 points) Explain EITHER the equation in Part A OR the equation in Part B.
A) $M^d/P = L(Y, r, \pi^e, \text{risk of other assets})$
B) $\frac{\Delta Y}{Y} = \frac{\Delta A}{A} + a_K \frac{\Delta K}{K} + a_N \frac{\Delta N}{N}$. You do not need to explain a_K and a_N, but you shoul
values and why they take those values.

6) (18 points) Answer EITHER Part A OR Part B.
A) Draw the diagram for the Solow Growth Model. Illustrate the effects of an improved technology. Explain why the curve(s) moved as drawn. What happens to the equilibrium capital-labor ratio and the GDP per capita?
B) Draw the diagram for the Solow Growth Model. Illustrate the effects of a decrease in the population growth rate. Explain why the curve(s) moved as drawn. What happens to the equilibrium capital-labor ratio and the GDP per capita?

7) (18 points) Answer EITHER Part A OR Part B.
A) Use the S/I diagram for a small open economy to explain the term "twin deficits." Explain why curve(s) moved and how the term came about.
B) Use the S/I diagram for a small open economy with a current account deficit. Briefly explain how you know it has a current account deficit. Illustrate the effects of a positive supply shock. Explain why the

curve(s) moved as drawn. What happens to the level of saving, the level of investment, the current account deficit, and the interest rate?

8) (24 points) Answer EITHER Part A OR Part B.
A) Draw the S/I diagram for a large country with a capital-financial account deficit. Explain how you know it is a capital-financial account deficit. Illustrate a decrease in the future marginal productivity of capital in the rest of the world. Explain why the curve(s) moved as drawn. What happens to saving in both countries, investing in both countries, the interest rate, and the deficit?
B) Draw the S/I diagram for a large country with a current account deficit. Explain how you know it is a current account deficit. Illustrate a decrease in the corporate tax rate in the rest of the world. Explain why the curve(s) moved as drawn. What happens to saving in both countries, investing in both countries, the interest rate, and the deficit?

9) (24 points) For EITHER both events in Part A OR both events in Part B. Determine the debit and credit. Then determine what happens to the NX, CA, short-term KFA, long-term KFA, and the KFA. Briefly explain your logic.
A) An American store buys $11,000 worth of Chinese solar panels from the Chinese company. You sell a $10,000 US Treasury bond to a Canadian.
B) A Chinese mill buys $9,000 worth of American wheat. You buy $8,000 worth of stock in the Chinese company Alibaba.