

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 and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 16-point question should take 8 minutes. I will give a few extra minutes, but probably no later than about 5 minutes, i.e., until the end of the hour.

1) (12 points) For EITHER the unemployment rate OR the inflation rate, explain a reason why that statistic is inaccurate.

2) (12 points) Do EITHER part A OR part B.

A) Given the table to the right, is consumer confidence a leading indicator? Explain your logic. The table came from CNN.com.

B) Countries like Sweden and Germany have much better unemployment benefits than the USA. Will those benefits cause the rate of unemployment when Germany has full employment to be greater than, less than, or equal to 5%? Explain your logic.

3) (16 points) Do EITHER part A OR part B.

A) What is meant by “X” in the equation  $Y = C + I + G + X$ ? Explain why we add it in the equation.

B) Give an example of “I” from the equation  $Y = C + I + G + X$ . Why isn’t buying a new share of stock part of “I”?

4) (18 points) Do EITHER part A OR part B.

A) Suppose that we are trying to find out how well-off the country is as a whole. Would you use GDP, NDP, NI, PI, or DPI? Why would you say that?

B) If GDP is \$10 trillion, depreciation is \$1 trillion, indirect business taxes are \$3 trillion, business subsidies are \$2 trillion, corporate taxes are \$1.5 trillion, transfers to individuals are \$0.5 trillion, personal taxes are \$4 trillion, and all other items are assumed zero, how much is NI? Show all work and state why you added or subtracted every item that is added or subtracted.

5) (18 points) Do EITHER part A OR part B.

A) Use the box on the right to calculate the CPI. How much inflation had there been?

Show all work, and give a one-sentence explanation of what you did.

B) Use the box on the right to calculate both the labor force participation rate and the unemployment rate. Show all work and give a one-sentence explanation of what you did.

**Are consumers telling us something?**

Every drop in the Conference Board's consumer confidence index of 30 percent or more, spread over a year, has resulted in or accompanied a recession.

DATES OF CONFIDENCE DROP	TOTAL DECLINE	DATES OF RECESSION
Jun. '69 - Jun. '70	36.1%	Dec. '69 - Nov. '70
Oct. '73 - Oct. '74	49.3%	Nov. '73 - Mar. '75
May '79 - May '80	47.8%	Jan. '80 - Jul. '80
Aug. '81 - Aug. '82	33.6%	Jul. '81 - Nov. '82
Jan. '90 - Jan. '91	48.3%	Jul. '90 - Mar. '91
Sep. '00 - Sep. '01	31.9%	Mar. '01 - ?
Feb. '02 - Feb. '03	32.6%	?

Source for confidence data: Conference Board  
Source for recession dates: National Bureau of Economic Research

	$P_t$	$P_0$	$Q_t$	$Q_0$
Melons	\$2/melon	\$1/melon	50 melons	75 melons
Tea	\$4/lb	\$5/lb	4.5 lbs	5 lbs

Classification:	Looking for a job	Employed	Home maker	Discouraged
# of people	50	950	800	200

6) (24 points) Do EITHER part A OR part B.

A) Explain both the advantages for economic growth of lengthening the time that a patent is valid and the advantages for economic growth of shortening the time a patent is valid.

B) How do an open economy and an educated work force both help countries to develop?