

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 14-point question should take 7 minutes. I cannot give a few extra minutes because of the class after ours.

1) (14 points) Do EITHER part A OR part B.

A) What is full employment? Why is it hard to determine?

B) In 1994, nominal GDP was \$6.7 trillion and the price index was 126.1 with the price index of 1987 = 100. What was the real GDP measured in 1987 dollars? Show all work and briefly explain your answer.

2) (18 points) Do EITHER part A OR part B.

A) Suppose that the consumption was 600, gross investment was 100, government spending was 300, exports were 150, imports were 180, net factor payments were -20, depreciation was 40, indirect business taxes are 25, corporate taxes are 35, personal transfer payments were 30, and personal income tax was 130. Calculate TWO of the following: GNP, NI, and PDI (a.k.a. DPI). Show all work without explanation. For example $GNP = \text{government spending} + \text{personal taxes} = 300 + 130 = 430$.

B) Would GDP, GNP, NNP, PI, or DPI be the best measure of how well off the country is? Why did you choose that one? (It is helpful to compare it to the one larger measure and the one smaller measure.)

3) (20 points) Do EITHER part A OR part B.

A) Illustrate on the production function an improvement in technology. Explain why the curve moved as drawn.

B) Explain why the Classical model always results in full employment while the Keynesian model does not.

4) (48 points) For EITHER the event in part A OR the event in part B, illustrate that event on the Classical AS/AD, Classical NS/ND, Keynesian (Keynesian-Classical) AS/AD, and the Keynesian Cross (45° diagram). Explain why each curve moved as drawn, and if no curve on the diagram moves, then explain why none moved. Use the SAME event for all four diagrams. Note that in both cases, one or two of the graphs will be tricky and will be graded leniently. Also note that the two Classical diagrams need not agree with the two Keynesian diagrams.

A) The supply of labor increases.

B) The marginal propensity to import increases.