

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 or 10 minutes after the hour.

1) (10 points) Do EITHER part A OR part B.

A) Suppose that a poll was taken of 100 Bethany College graduates from the class of 2003 with the best GPAs, to find out the best and worst professors in the school. What would be the problem with the way the sample was chosen?

B) Suppose that we were trying to find out the determinants of consumption. We use as independent variables GDP, GNP, interest rates on mortgages, and the CPI. What is the problem with that?

2) (16 points) Do TWO of the following.

A) Explain the theory behind the Kuznets cycles.

B) How are the post-WWII business cycles different from the pre-war cycles? Explain why they are different in that manner.

C) What are automatic stabilizers? Give an example of one and explain how it stabilizes the economy.

3) (28 points) In the computer* is the data for the sales of X as a function of the price of X, the price of Y, and the amount of advertising that firm X does. Use that data to estimate the function. How accurate is the estimation of the whole equation together? How can you tell? Which of the three variables are significant? How can you tell? If you were the firm, would you do advertising? Why or why not?

4) (30 points) Do EITHER part A OR part B.

A) Draw an IS/LM diagram for an economy that has money demand sensitive to GDP and investment sensitive to interest rates. Explain how your diagram shows those sensitivities. Illustrate an increase in the government spending. Explain why the curve(s) moved as drawn. Did monetary policy work well at changing GDP? Why or why not?

B) Draw an IS/LM diagram for an economy that has money demand sensitive to interest rates and a small autonomous expenditure multiplier. Explain how your diagram shows those two features. Illustrate an increase in the money supply. Explain why the curve(s) moved as drawn. Did monetary policy work well at changing GDP? Why or why not?

* The data that had been supplied on the computer is typed below. (The student taking the test did not need to type in the numbers as they were already in the spreadsheet.)

Observation	Qx	Px	Py	Ads
1	96	12	12	1
2	86	13	14	3
3	88	15	16	2
4	91	13	11	4
5	84	14	12	2
6	95	12	17	3
7	85	11	9	5
8	94	9	7	7
9	84	16	15	5
0	81	17	17	3
1	104	8	11	7
12	87	19	17	9
13	97	3	2	3
14	103	5	9	5
15	86	12	14	1
16	101	4	5	0
17	100	5	7	6
18	96	14	17	3
19	83	22	19	1
20	91	12	13	7