Write your name on the cover of the test booklet and nowhere else. 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 14-point question should take 7 minutes. I can give some extra time, but not much.

1) (10 points) Answer EITHER Part A OR Part B.
A) Is buying shares of stock part of investment in the GDP calculation? Explain your logic.
B) Is GDP a stock or a flow? Explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.
A) How can the act of increasing an excise tax result in less revenue?
B) What is the tax base? Why should a politician know what happens to the tax base when a tax is increased?

3) (14 points) Answer EITHER Part A OR Part B.
A) What are the negative effects of a high unemployment rate other than reduced output? Mention at least two and explain how a high unemployment rate causes that problem.
B) Explain why the full employment rate of unemployment in the USA went up when women entered the labor force in the 1960s and 1970s. Note, I am asking about full employment, not the actual level of unemployment.

4) (14 points) Answer EITHER Part A OR Part B.
A) Suppose the inflation rate was expected to be 10%, but was actually 7%. What two groups of people are hurt by that? Explain your logic.
B) What is wrong with this statement: "When inflation is high but expected, the average person cannot afford to buy what they bought before. That is the big problem with inflation." Explain why it is wrong and briefly explain the real problem high inflation.

5) (14 points) Answer EITHER Part A OR Part B.
A) Suppose the table to the right represented the tax rates for the USA. What would your total tax bill be if your income was $50,000? What is your average tax rate? Show all calculations.
B) Is the tax illustrated, in the table to the right, a progressive, proportional, or regressive tax? Briefly explain your logic. Briefly explain why most countries have a progressive income tax.

Income Bracket	Marginal Tax Rate
$0 - 10,000	15%
$10,000 - 30,000	20%
$30,000 - 90,000	25%
$90,000 - ∞	30%

6) (16 points) For EITHER the proposal in Part A OR the proposal in Part B, explain how that proposal would reduce the problem with social security. Then explain whether or not you think it is a good proposal. Explain your logic.
A) Raising the Social Security tax rate.
B) Raising the salary cap.

7) (20 points) Answer EITHER Part A OR Part B.
A) Suppose the whole economy of Bethany consisted of the following. You pay $10,000 in tuition. You buy $500 used books. A foreign student pays $11,000 in tuition. The foreign student buys $600 of new books. You pay a tutor $600. The government pays $300,000 for a new fire truck. The college spends $1,000,000 to build a new dormitory. What would the GDP of Bethany be? Show all work. If you left out a number I gave you, explain why you left it out.
B) Suppose that GDP is $2300, depreciation is $200, indirect business taxes were $300, business taxes were $500, social security taxes were $400, and government transfers were $250. Calculate NDP, NI, and PI. Show all work.