

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 (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 10-point question should take 5 minutes. I cannot give extra time because of the class which follows yours.

1) (8 points) Answer ONE of the following three parts.

A) Give an example of structural unemployment. Explain why that person would fit that definition of unemployment.

B) Suppose there are only two goods, Mountain Dew and pizza. In 2005, there were 1000 and 500 of each sold respectively at \$0.50/can and \$1.00 per slice. If in 2006, there were 2000 and 400 of each sold respectively at \$0.40/can and \$1.30 per slice, then what would the CPI be in 2006 if 2005 is the base year. Show the formula.

C) If the inflation rate is 10% and the nominal interest rate is 32%, then what is the real interest rate? Write the equation used and show all work.

2) (10 points) Answer EITHER Part A OR Part B.

A) Use the table to the right to calculate the marginal tax rate, total tax rate, and the average tax rate for a person who is earning \$100,000 a year. Show all work and if there is no work to show, then explain how you got it.

B) I argue that most sales taxes are regressive taxes. Define a regressive tax and explain why I feel they are regressive.

Income	Rate
\$0 - \$40,000	10%
\$40,000 - 90,000	20%
\$90,000 - 150,000	30%
\$150,000 and up	40%

3) (10 points) Answer EITHER Part A OR Part B.

A) Explain the difference between a sales tax and an excise tax.

B) Explain the difference between an ad valorem tax and a specific tax.

4) (14 points) Answer EITHER Part A OR Part B.

A) The unemployment numbers may be misleading. Give at least TWO reasons why this is true.

B) The real GDP per capita numbers may be misleading. Give at least TWO reasons why this is true.

5) (16 points) State the problem which is developing with Social Security. For EITHER the proposal in Part A OR the proposal in Part B, explain how that proposal will reduce the problem with social security. Would you use that method? Explain your logic.

A) Increase the retirement age.

B) Increase immigration.

6) (18 points) Answer EITHER Part A OR Part B.

A) If the current CPI is 200 and next year it is 204, and if people had expected 3% inflation, then who will gain and who will lose? Explain your logic stating at least two groups of people who gain and two groups of people who lose.

B) High unemployment has many problems besides reduced production and income. Explain THREE of them.

7) (24 points) Answer EITHER Part A OR Part B.

A) If I gave you GDP = \$1400, depreciation = \$300, net factor payments = \$20, indirect business taxes = \$120, business taxes = \$200, government transfers = \$150, and personal taxes = \$250, then how would you calculate PI? Write the equation or equations you would use. Briefly explain why you added or subtracted each item. You may not use all information.

B) What would GDP be if the following were the only events in the economy? For each item, briefly explain why you added, subtracted, or ignored it. You buy \$400 worth of Ford stock paying \$40 in commissions. The government pays a staffer \$30,000 in salary. A friend of yours buys a \$1000 used car from a dealer who paid \$450 for it. You buy a \$40 shirt made of Egyptian cotton.