Wilfrid W. Csaplar Jr., Ph.D. Economics 302 Exam #1 2006/02/16

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 150 points (to be scaled up to 210 points) and is scheduled to take 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. I will give some extra time, but not a lot.

1) (10 points) For EITHER the event in Part A OR the event in Part B, determine what happens to the unemployment rate? Which of the four categories of unemployment changed? Explain your logic.
A) A former Weirton Steel worker gets so discouraged looking for a job that they quit looking.
B) You graduate without a job. (I hope this does not happen.)

2) (14 points) Answer EITHER Part A OR Part B.
A) Why should the *value added method* of calculating GDP yield the same result as the *final product method* of calculating GDP? Use a numerical example of one good in your explanation.
B) If I gave you NI and asked you to calculate PI, what information would you need? Why would you need it and how would you use it?

3) (14 points) Answer EITHER Part A OR Part B.
A) We used the inter-temporal budget constraint to explain consumption. Referring to it, but without drawing it, tell me what happens to current consumption if r increases. Why? What does this say about saving?
B) President Bush's first tax cut was temporary and his subsequent tax cuts were permanent. Which had a bigger effect upon the economy? Why?

4) (16 points) Answer EITHER Part A OR Part B.
A) Developing countries say that real GDP per capita is a poor measure of how well off they are. Why do they say this? Give at least two reasons.
B) We first said that S = I. Why did we say that? Why did we modify it by introducing the current account to the formula?

5) (20 points) Explain EITHER the equation in Part A OR the equation in Part B.
A) $c^f = (y + a - c)(1+r) + y^f$
B) $S_{pvt} = (Y + NFP + TR + INT - T) - C$

6) (36 points) Illustrate EITHER the event in Part A OR the event in Part B. On the labor supply/demand diagram AND the production function diagram with employment on an axis. Use the SAME EVENT on BOTH diagrams. Explain why the curve(s) moved. State what happens to the wage rate, the employment level, and the real GDP.
A) Technology improves.
B) The income tax increases.

7) (40 points) Illustrate EITHER the event in Part A OR the event in Part B. On the S/I diagram AND the MPK^f/uc diagram. Use the SAME EVENT on BOTH diagrams. Explain why the curve(s) moved. State what happens to the desired quantity of capital, the user cost of capital, quantity of investment, and the interest rate.
A) The depreciation rate increases.
B) The labor supply increases.