

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 some students have a class after your class.

1) (8 points) Answer EITHER Part A OR Part B.

- A) Is buying stocks that you think will go up, an investment for GDP calculations? Explain your logic.
- B) When the government pays President Bush his salary, is that part of GDP? Explain your logic.

2) (12 points) All statistics have problems in calculating the statistic and/or interpreting it which reduces the usefulness of the statistic. For EITHER GDP OR the unemployment rate, explain TWO problems the statistic.

3) (14 points) For ONE of the following events, determine what happens to the unemployment rate. Explain why it changed as it did. Also, tell me which part of the unemployment rate is affected – frictional, structural, cyclical, and seasonal. Why did you choose that category of unemployed?

- A) Sales people are laid off because the whole economy is down.
- B) A lifeguard for an outdoor swimming pool gets laid off in September.

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

- A) Explain how increasing a tax could yield the government less revenue. Use a numerical example to prove your point.
- B) Draw the Laffer Curve and explain why it takes its shape.

5) (16 points) Answer EITHER Part A OR Part B.

- A) What are the two costs of correctly anticipated inflation? One almost disappears when you get hyperinflation like the 1600% in Zimbabwe. Which one is it and why does it almost disappear then?
- B) Suppose the CPI at the start of the year was 300 and at the end of the year it was 312. If people had anticipated a 5% inflation rate, name two groups of people who would like the actual inflation rate. Explain your answer including showing all work for the calculation of the inflation rate.

6) (16 points) Answer EITHER Part A OR Part B.

- A) What is meant by the *value added* method of calculating GDP? Why should it give the same result as adding up the sales of the goods and services?
- B) If I gave you the value of National Income (NI), what information would you need to calculate Personal Income (PI)? Explain how you would use that information and why you need it.

7) (20 points) State the problem with Social Security. For EITHER *raising the tax rate* OR *reducing the benefits for all recipients*, state how the proposal would reduce the problem with Social Security. Then determine whether you would use that solution. Explain your logic for or against using it.