

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 140 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) I think everybody in this class is smart enough to get an A in it. Why are so few getting A's?

B) What is this argument forgetting about which may invalidate it? Explain your logic. "Suppose that a firm can make one item per hour. The materials cost \$10/item and the labor costs \$5/hour. They require no machines or buildings to make the item. If the item sells for \$18/item, the company should sell the item."

2) (8 points) Answer EITHER Part A OR Part B.

A) In the song "Malt Liquor Tastes Better," Less Than Jake says, "I should be out looking for a job, but only wind up heading for a stiff drink. There is nothing else but to think, 'it's time to stumble home.' . . . Another day not trying." Is this person counted as unemployed? If yes, which category is he in? If no, then why not? If you need more information, tell me what information you would need and how you would use it.

B) How do you calculate DPI if you had PI? What is the reason for that calculation?

3) (16 points) For EITHER the "solution" to the Social Security problem mentioned in Part A OR the one in Part B, Explain how that would reduce the problem with Social Security. Would you use it? Explain your logic.

A) Increase the number of legal immigrants with working permits.

B) Use "means testing" to determine if the person receives all of their benefits.

4) (16 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for books. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

A) The government greatly reduces the number of acres of trees that can be cut down.

B) The price of writing paper increases.

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

A) Why can't we say, "When prices rise, people cannot afford as much, so they buy less. That is why the AD curve slopes down."? What is the correct reason it slopes down?

B) A school of thought that we did not study is called "Supply-Side Economics." They feel the goal of fiscal policy is to get the LRAS curve to move to the right in the future. (Obviously, they cannot move it to the right now.)

What do you think they would recommend for fiscal policy. Hint: what moves the LRAS and how can the government affect that? I will be lenient on grading this.

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

A) Use the supply and demand for housing to show that rent controls (a price ceiling on rent) actually hurts customers. Explain the logic using the graph.

B) Use the supply and demand for gasoline to illustrate the problem with negative externalities. Explain the most efficient way the government could solve the problem. Illustrate that and explain why that solution works to reduce the problem.

7) (18 points) Answer EITHER Part A OR Part B.

A) Draw the money supply/money demand diagram. Illustrate the effect of non-money assets like stocks becoming more liquid. Explain why the curve(s) moved as drawn. What happens to the amount of money and the interest rate?

B) The book mentions four properties which money should have. What are THREE of them? For ONE of them, is M1 or M2 better at that? Explain your logic.