Wilfrid W. Csaplar Jr., Ph.D. Economics 302 Final Part 1 2008/5/09

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 12-point question should take 6 minutes. I cannot give extra time because some students have a class after your class.

1) (10 points) Answer EITHER Part A OR Part B.
A) Why have business cycles become less severe since World War II?
B) The authors of the book says that business cycles are "recurrent but not periodic." What do they mean?

2) (10 points) Answer EITHER Part A OR Part B.
A) Why might a decrease in the unemployment rate be a bad sign for the economy?
B) Why might an increase in real GDP per capita be bad for the country?

3) (16 points) Explain EITHER $S_{GVT} = (T - TR - INT) - G$ OR $r = (i-\pi^e)/(1+\pi^e)$. For the latter, explain both effects that π^e has.

4) (20 points) Answer EITHER Part A OR Part B.
A) Supply-Side Economics is a school of thought which is not discussed in this book. They take the Endogenous Growth Theory and/or Solow's Growth Model and use the conclusions to prescribe fiscal policy. They propose policies which will cause k and/or $\Delta Y/Y$ to grow. If they were using the Solow Growth Model, what would they say the government should do to increase "k"? Why would that policy cause "k" to increase?
B) Illustrate a decrease in the liquidity of non-monetary assets on the supply and demand for money. Explain why the curve(s) moved as drawn. What happens to the amount of money and the interest rate?

5) (22 points) Answer EITHER Part A OR Part B.
A) Illustrate an increase in the income tax on the supply and demand for labor. Explain why the curve(s) moved as drawn. What happens to the amount of labor used and the wage rate?
B) Illustrate in increase in the depreciation rate on the uc_K/MPK^f diagram. Explain why the curve(s) moved as drawn. What happens to the desired amount of capital and the cost of using it?

6) (22 points) Answer EITHER Part A OR Part B.
A) Draw the S/I diagram for a small open economy. Place the world interest rate where there is a KFA surplus. Explain how you know there is a KFA surplus. Illustrate a temporary, negative, productivity shock. Explain why the curve(s) moved as drawn. What happens to the interest rate, the quantity of savings, and the quantity of investment?
B) Use the life-cycle model's diagram to explain the effects of President Bush's current tax cut of $600 per person earning under $75,000 per year.