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 150 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. You can take the full time, even though it is scheduled for 50 minutes.

4) (8 points) Answer EITHER Part A OR Part B.
A) Give an example of structural unemployment. Explain why your example fits that definition.
B) Explain how increasing taxes can cause the government to get less revenue.

1) (8 points) Answer EITHER Part A OR Part B.
A) Explain the following statement using terms used in economics. "The government has proposed limiting the compensation of the administrators of failed companies which the government bails out. This will cause the companies to lose its best administrators."
B) Explain why Assistant Professors of Business usually get paid about 201% of what an Assistant Professors of English get paid using terms from economics.

6) (14 points) All data in macroeconomics has imperfections which obscure the meaning of the data. For EITHER real GDP per capita OR the unemployment rate, explain the problems with interpreting changes in the variable.

7) (14 points) During the second half of the final, we will be assuming that *Ricardian Equivalence* and *lags* do not exist. For EITHER of those assumptions, explain why that is an important assumption.

5) (16 points) Answer EITHER Part A OR Part B.
A) Draw a PPF (PPC) for computers versus books. Illustrate the effect of a law where the government restricts the number of trees which can be cut down. Explain why the curve moved as drawn.
B) What is the problem facing Social Security? For the "solution"of reducing benefits, explain how it will reduce the problem.

2) (18 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for <u>wheat</u>. Explain why the curve(s) moved as drawn. What happens to the price and quantity of <u>wheat</u> sold?
A) People desire more ethanol from corn.
B) Wages of farm workers go up.

3) (22 points) Answer EITHER Part A OR Part B.
A) Draw a supply/demand diagram for an industry which produces a negative externality. Explain how you know they are not producing the optimal quantity and charging the correct price. From an economist's point of view, what is the best solution? Illustrate that solution and explain how it brings the economy to the optimal point.
B) Draw the supply and demand for a good. Put a price ceiling on the good. Explain why the graph looks as drawn. Explain why the price ceiling ends up costing the consumer more.