

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) (12 points) Answer EITHER Part A OR Part B.

A) When we go from NNP to NI, we add or subtract two items. What are they and why do we add or subtract them?

B) Is savings a stock or a flow? Explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.

A) The Republicans felt the stimulus package should have decreased people's taxes by withholding less, while the Democrats say it should have government spending. Assuming that both proposals were temporary, what would the life-cycle model say about the proposals? Which side would that model support? Explain your logic. It is not necessary to draw the graph.

B) The *Permanent Income Theory* makes several assumptions which may not hold. What is one of them? Why might that not hold?

3) (18 points) Answer EITHER Part A OR Part B.

A) Explain $c_{t+1} = (y_t + a_t - c_t)(1 + r) + y_{t+1}$. Also explain why $(y_t + a_t - c_t)$ is multiplied by $(1+r)$.

B) Explain $S_{PVT} = (Y + NFP + INT + TR - T) - C$.

4) (18 points) Answer ONE of the following three parts.

A) There are several reasons why real GDP per capita is not an accurate measure of how much a country produced in its borders. Explain two of the reasons.

B) Write the formula for calculating the CPI. Why is it important that the base year is updated periodically.

C) There are several reasons why the unemployment rate is not an accurate measure of the underutilization of labor. Explain two of the reasons.

5) (20 points) Answer EITHER Part A OR Part B.

A) Draw the labor supply/labor demand diagram. Illustrate an increase in future income taxes. Explain why the curve(s) moved as drawn. What happens to the number of people employed and their wage rate?

B) Draw the labor supply/labor demand diagram. Illustrate an increase in the amount of capital. Explain why the curve(s) moved as drawn. What happens to the number of people employed and their wage rate?

6) (20 points) Answer EITHER Part A OR Part B.

A) Draw the intertemporal budget constraint. Illustrate an increase in the interest rate. Explain why the curve moved as drawn.

B) There are two effects which relate to the slope of the labor supply curve. What are they? Given the way we draw the curve, which one are we assuming is stronger? Explain your logic.