Wilfrid W. Csaplar Jr., Ph.D.   Economics 302   Final Exam Part 1   2009/05/08

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 14-point question should take 7 minutes. I cannot give extra time because some students have
a class after your class.

1) (14 points) Answer EITHER Part A OR Part B.
A) What are **two** of the problems with using real GDP per capita as a measure of how well off a country
is?
B) What are **two** of the problems with using the unemployment statistic as a measure of the wasted
human resources?

2) (14 points) Answer EITHER Part A OR Part B.
A) Suppose there are 9000 people with jobs, 1000 people without jobs but looking for jobs, 9,800 people
without jobs who do not want jobs, and 200 people without jobs who want jobs but have quit looking for
them. Calculate the unemployment rate. Briefly explain how you got the number and show all work
B) What is meant by Ricardian Equivalence? What does it mean about the effectiveness of fiscal policy?
(I.e., why do we assume it does not exist when answering the second half of the final?)

3) (16 points) Explain ONE of the following equations.
A) $r_{a-t} = (1-t)i - \pi^e$
B) $M/P = L(Y, r, \pi^e)$. Treat M/P as one variable.
C) $\Delta Y/Y = sA - d$

4) (18 points) Answer EITHER Part A OR Part B.
A) Draw the S/I diagram for a small open economy with a current account (CA) deficit. Explain how
you know there is a current account deficit. Draw an improvement in the future marginal productivity of
capital. Explain why the curve(s) moved as drawn. What happens to the interest rate, amount of
investment, and the amount of savings?
B) Use the life-cycle model's diagram to show the effects of the Obama and Bush stimulus packages
assuming they are temporary. Explain why the curve(s) moved as drawn. What will the impact be on the
economy of these stimulus packages?

5) (18 points) Answer EITHER Part A OR Part B.
A) Draw the labor supply/demand diagram. Illustrate an increase in wealth. Explain why the curve(s)
moved as drawn. What happens to the wage rate and the level of employment?
B) Draw the production function diagram with labor on the horizontal axis. Illustrate an increase in the
amount of capital. Explain why the curve moved as it did. Draw your original and new production
points. Explain how you found them.

6) (20 points) Answer EITHER Part A OR Part B.
A) Draw the Solow Growth diagram. Illustrate an increase in the depreciation rate. Explain why the
curve(s) moved as drawn. What happens to the long-run capital/labor ratio and the GDP per capita?
B) Draw the MPK^f/uc_K diagram. Draw an increase in the depreciation rate. Explain why the curve(s)
moved as drawn. What happens to the cost of capital and the desired amount of capital?