

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 10-point question should take 5 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) We said that stocks and bonds are not investment. Why not?

B) How do patents help economies to grow faster?

2) (10 points) Answer EITHER Part A OR Part B.

A) What are *public goods* and why are they an economic reason for a government?

B) Give an example of *structural unemployment*. Explain why your example fits that definition.

3) (10 points) Answer ONE of the following questions.

A) Draw the Keynesian SRAS curve and explain why it takes its shape. (This is not the SRAS we normally drew.)

B) Draw the LRAS curve and explain why it takes its shape.

C) Draw the AD curve and explain why it takes its shape.

4) (10 points) Answer EITHER Part A OR Part B.

A) Use economic terms to explain relatively few of the department's graduating seniors will be at the department's dinner for them. (Obviously, you do not know the reasons, but you can explain why they are not there.)

B) Use economic logic to explain why none of you should have "pulled an all-nighter" last night.

5) (16 points) Draw the supply and demand for doors. Illustrate the effects of EITHER the price of desks increases OR the wage rate of the tree harvesters increases. Explain why the curve(s) moved as drawn. What happens to the price of doors and quantity of doors sold?

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

A) Draw the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of an increase in the marginal propensity to save. Explain why the curve(s) moved as drawn. What happens to GDP?

B) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of an increase in the price of oil. Explain why the curve(s) moved as drawn. What happens to price level and real GDP?

7) (24 points) Answer EITHER Part A OR Part B.

A) What is the problem facing the Social Security system? Explain how increasing the Social Security tax would reduce the problem. Would you use that as part of the solution? Explain your logic.

B) Draw the supply and demand diagram for a product which creates a negative externality. Prove the quantity of the good is not the socially optimal quantity and the price charged is wrong. How do economists say this problem should be reduced? Illustrate that on the diagram and explain how that results in the socially optimal quantity and price.