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) For EITHER *promoting competition* OR *providing a public good*, explain why that is an economic reason to have a government.  Make sure you define the phrase.

2) (12 points each) For TWO of the following events, tell me what happens to GDP.  Tell me which part of GDP is affected and the logic you used to determine that.
A) A foreign student pays his tuition of $23,000 at Bethany College.
B) You buy $500 worth of Ford stock and pay a commission of $9.
C) I pay you $50 to shovel my driveway.

3) (14 points) Answer EITHER Part A OR Part B.
A) Use the table to the right to calculate the marginal tax rate, total taxes paid, and the average tax rate for a person earning $50,000.  Show all work and if there is no work, the explain how you got the number.
B) Suppose the price level at the end of last year was 500 and at the end of this year the price level was 525.  What is the inflation rate?  If people had expected the inflation rate to be 8%.  Who is hurt and who is helped by the inflation rate?  Show all work and briefly explain your logic.

| Income | Rate |
|---|---|
| $0 - $20,000 | 10% |
| $20,000 - $40,000 | 15% |
| $40,000 - $90,000 | 20% |
| > $90,000 | 30% |

4) (14 points) Answer EITHER Part A OR Part B.
A) What are the two problems caused by fully anticipated inflation?  Explain your logic.
B) Explain two reasons why the unemployment rate does not accurately measure the unused human resources.

5) (18 points) Answer EITHER Part A OR Part B.
A) Draw the supply and demand for a good which causes a positive externality.  Prove it results in the wrong quantity produced.  Why does it result in the wrong quantity?  Do NOT worry about solving the problem.
B) Draw the supply and demand for a good which causes a negative externality.  Prove it results in the wrong quantity produced.  Why does it result in the wrong quantity?  Do NOT worry about solving the problem.

6) (20 points) Answer EITHER Part A OR Part B.
A) What is the problem facing Social Security?  Briefly explain why it has this problem.  How would *means testing* reduce the problem?  Would you support doing that?  Why or why not?
B) What is the problem facing Social Security?  Briefly explain why it has this problem. How would increasing the Social Security tax rate the problem?  Would you support doing that?  Why or why not?