

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) Suppose a person has a consumption function of $C = 1000 + 0.9*(Y-T)$. If her disposable income is \$20,000, then what are her MPC, MPS, APC, and APS? Show all work. If there is no work, then briefly explain how you got the number.

B) Suppose I had asked a question to show the effect of an increase in the price level on the Keynesian Cross, a.k.a. 45° diagram. What would be wrong with the following explanation for why the curve moved? “The $C+I+G+X$ line moved down because people cannot afford to buy as much as before, therefore consumption drops.”

2) (12 points) For EITHER *limiting protectionism* OR *increasing human capital*, explain how that helps a country to grow.

3) (12 points) Answer EITHER Part A OR Part B.

A) We always assume that faster economic growth is good for the country. Explain why that may not be true.

B) Why is savings important for economic growth?

4) (16 points) Answer EITHER Part A OR Part B.

A) Draw the Keynesian aggregate supply curve. Why does it take that shape?

B) Suppose your credit card charges 14% interest. Without fees or payments, how long will it take for your balance to double? If your savings account pays 2% interest, how long will it take to double? Show all work and briefly explain all parts of what you did. What does that say about keeping a credit card balance?

5) (18 points) Answer EITHER Part A OR Part B.

A) Draw an SRAS/LRAS/AD diagram for a recessionary gap. Explain how you know that is a recessionary gap. If the government does nothing, then what will happen? Illustrate the effects on the graph and explain why the curve(s) moved as drawn. What happens to GDP and the price level?

B) Draw an SRAS/LRAS/AD diagram. Illustrate the effects of an improvement of technology on the diagram. Explain why the line(s) moved as drawn. What happens to GDP and the price level?

6) (30 points) Illustrate EITHER the event in Part A OR the event in Part B on both the SRAS/LRAS/AD diagram and the Keynesian Cross, a.k.a. 45° diagram. Explain why the curve(s) moved as drawn. What happens to GDP and the price level?

A) The government raises the income tax.

B) The marginal propensity to save increases.

7) (0 points) This is a complete list of everything I know which fits a certain description. What is that description? The Kids Are Alright by The Who; Sheer Heart Attack by Queen; Brain Salad Surgery by Emerson, Lake and Palmer; Out of the Silent Planet by Kings X; and Losing Streak by Less Than Jake (in the USA but not in Japan). Why are you doing a zero point question on April Fool’s Day? (This is an actual bizarre list though.)