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) Answer either Part A OR Part B.
A) Economists were the first people to say "there is no such thing as a free lunch." Use terminology from
economics to explain what they mean.
B) Explain how opportunity costs relate to the supply curve.

2) (10 points) Answer EITHER Part A OR Part B.
A) Why aren't stocks and bonds considered investments in this class?
B) Why aren't credit cards part of the money supply?

3) (12 points) Answer EITHER Part A OR Part B.
A) What is meant by *limiting protectionism*? How does it help the country develop?
B) One of the reasons we gave for the AD curve's downward slope was the "interest rate effect." When we
initially described it, we did not explain a key step. We have since been able to explain that missing step. Give
the full "interest rate effect," including the missing key step.

4) (16 points) Answer EITHER Part A OR Part B.
A) Draw the PPF for bread versus guns. Illustrate the effect of flooding in the farm land. Explain why the
curve moved as drawn.
B) What is the big problem facing Social Security? How would raising the retirement age reduce the problem?
Do **not** worry about whether or not it is a good idea.

Income	Tax Rate
$0 - 10,000	20%
$10,000 - 40,000	30%
$40,000 - 90,000	40%
> $90,000	50%

5) (16 points) Answer EITHER Part A OR Part B.
A) Use the table to the right to find or calculate the marginal tax rate, the
total taxes paid, and the average tax rate for a person earning $50,000.
Show all work. If there is no work, then briefly explain what you did.
B) We use real GDP per capita as a measure of how well off the country is.
However, there are several problems with doing that. Explain TWO of the
problems with that measure of well being.

6) (18 points) Answer EITHER Part A OR Part B.
A) Draw the supply and demand for corn. Illustrate the effects of an increase in the cost of fertilizer. Explain
why the curves moved as drawn. What happens to the price charged and quantity sold?
B) Draw the supply and demand for cigarettes (or any other product you smoke). Since the second-hand smoke
causes cancer in those around you, it creates a negative externality. Use the diagram to prove that the market
will not result in the socially optimal level of production of cigarettes. Do **not** worry about solving the
problem.

7) (18 points) Answer EITHER Part A OR Part B.
A) Lags are a problem with both fiscal and monetary policy. Briefly define them. Explain how their existence
may mean we might not want to do counter-cyclical policy. In other words, why might we not want to take any
action in the second half of the final?
B) What is meant by *adverse selection*? Give an example of it from banking.