

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you use double-sided printing or print on the back of scrap paper, I will give you one additional point.

1) (15 points) For each of the following argument, determine if the argument is valid all the time, valid some of the time, or never valid. Explain your logic. “The deficit and debt will be a burden on future generations.”

2) (20 points) Paul O’Neill, the former Secretary of the Treasury says that the government’s debt is larger than the approximately \$15,650,000,000,000.00 of bonds out there. The textbook claims that the debt we should be concerned about is actually less than the dollar value of the bonds outstanding. Explain both parties’ logic and then tell me which you think is more accurate. Explain your logic. (Of interest the debt is just under \$50,000 per citizen and just over \$138,000 per taxpayer. Given NASA’s estimation of the age of the universe, getting one penny every minutes since the big bang, you could not pay off the debt. Or getting a penny every one and a half minutes since the start of the solar system will barely pay off the debt.)

3) (20 points) Right now, President Obama is making a big deal about the “millionaires’ tax” also known as the Buffett Rule after Warren Buffet who suggested it. What is it? Do you think it should be passed? Why or why not? Will it play a big role in reducing the deficit? Explain your logic.

4) (10 points each) For each of following events, determine what happens to M1 and M2. Explain your logic.

A) You withdraw \$300 from your savings account and put it in your checking account.

B) You use a credit card to pay \$200 for a textbook.

5) (25 points) What is *adverse selection*? Give an example of it from the banking industry. Explain one way banks reduce it. How does that reduce the problem?