

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 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) How does a country having more free trade (limiting protectionism) help the country develop?

B) How does creative destruction help a country develop?

2) (12 points) Answer EITHER Part A OR Part B.

A) What concept from this course should be used in most, if not every, decision you make in your life? Explain why that concept is that important.

B) Fewer than half of the students in this class attended the review session last night. Use economic theory to explain why they might not have been there.

3) (14 points) For EITHER *crowding out* OR *Ricardian Equivalence*, define that term and explain why that may reduce the effectiveness of fiscal policy when affecting GDP.

4) (14 points) Answer EITHER Part A OR Part B.

A) Suppose the price level was 400 at the beginning of the year and 420 at the end of the year. Calculate the inflation rate showing all work. If people had been expecting an inflation rate of 7%, then who was hurt by the inflation. Explain how they were hurt.

B) For this question, I am slightly modifying the actual numbers for the USA so they work well. The working age population is 250 million. 138 million have jobs. 12 million do not have jobs and are looking for them. 1 million have quit looking for a job. 99 million have no desire for a job (stay at home parents, disabled, etc.). Calculate the labor force participation rate and the unemployment rate. Show all work and BRIEFLY explain how you chose who to include in each calculation.

5) (14 points) Answer EITHER Part A OR Part B.

A) What is the problem facing Social Security? How would increasing the retirement age reduce the problem? (Note this is only 14 points, so I am NOT asking if you would do that.)

B) Suppose a person has an income of \$150,000. If the tax brackets to the right apply, then what would her marginal tax rate, total taxes paid, and average tax rate be? Show all work and if there was no work, the briefly state how you found your answer.

Bracket	Rate
\$0 - \$40,000	20%
\$40,000 - \$90,000	40%
>\$90,000	50%

6) (16 points) Answer EITHER Part A OR Part B.

A) State and prove the law of comparative advantage.

B) Draw a PPF for cars vs. tea. Draw an increase in the population. Explain why the curve moved as drawn.

7) (18 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for popcorn. Illustrate the effects of an increase in the price of ethanol from corn. Explain why the curve(s) moved as drawn. What happens to the price of popcorn and the quantity of popcorn sold.

B) Draw the supply and demand for new houses. Illustrate the effects of an increase in the price of bricks. Explain why the curve(s) moved as drawn. What happens to the price and quantity of new houses?