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 75 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes. I can give extra time but not much.

1) (10 points) Answer EITHER Part A OR Part B.
A) Are stock prices procyclical, countercyclical, or acyclical? Is it leading, lagging, or roughly coincident? Explain your logic.
B) How has the efficiency of the payments system changed over the past two decades? How has that affected the velocity of money? Explain your logic.

2) (12 points) Answer EITHER Part A OR Part B.
A) On television on Sunday, a commentator quoted Ben Bernanke as saying, "If the labor force participation rate was the same as it was in 2007, the unemployment rate would be just over 10%." Explain what happened which has caused the unemployment rate to be much lower at 8.2%. Hint: this is one reason the unemployment numbers may be misleading.
B) We use real GDP per capita as a measure of how well off a country is. Explain two problems with doing that.

3) (12 points) Answer EITHER Part A OR Part B.
A) Explain $S = Y + NFP - C - G$.
B) Explain $Y = AK^{0.3}N^{0.7}$. Explain A, K, N, and why the 0.3 and 0.7 are less than 1.

4) (16 points) Answer EITHER Part A OR Part B.
A) Draw the MPK^f/uc_K diagram. Illustrate the effects of an increase in the depreciation rate. Explain why the curve(s) moved as drawn. What happens to the user cost of capital, the desired amount of capital, and the level of investment? Explain how you reached the conclusions.
B) Illustrate an increase in the population growth rate on Solow's growth model diagram. Explain why the curve(s) moved as drawn. Explain the economic reason why the capital-to-labor ratio changed as drawn.

5) (16 points) Answer EITHER Part A OR Part B.
A) Draw the S/I diagram for a small country running a current account surplus. Explain how you know there is a current account surplus. Illustrate the effects of an improvement in future technology on the diagram. Explain why the curve(s) moved as drawn. What happens to the level of investment, the level of savings, and the interest rate?
B) Draw the S/I diagram for a small country with balanced trade. Illustrate the effects of the government running a deficit. Explain why the curve(s) moved as drawn. How does this explain the "twin deficits."

6) (16 points) Answer EITHER Part A OR Part B.
A) Draw the IS/LM/FE diagram. Illustrate the effects of an expected future tax increase. Explain the curve(s) moved as drawn. What happens to GDP and interest rates?
B) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of a major earthquake. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?

7) (18 points) Answer EITHER Part A OR Part B.
A) During 2008 and early 2009, the stock market lost about 53% of its value. Illustrate the effects of that on the inter-temporal budget constraint. Explain why the curve moved as drawn. What happens to the private savings (S_{PVT}) as a result of this? Explain your logic.
B) The Life-Cycle Model can be caused problems by durable goods. Explain why durable goods could make the predictions of the model be inaccurate.