

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, but I will allow the full 80 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes.

1) (12 points) Answer EITHER Part A OR Part B.

A) On a homework assignment, a student was asked what the opportunity costs of doing the assignment were. They answered, "I could have gone to the movies, read the assignment for English class, played video games, or practiced the guitar." What are two problems with this answer?

B) When we discussed the opportunity costs of going to college, I said that it is possible for room to be an opportunity cost, but it is possible that is not an opportunity cost. Explain the difference between the two situations.

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

A) Explain the economic reason why you should not "pull an all-nighter" studying for an exam.

B) Use a supply and demand diagram to prove that normally the market will give the socially optimal production and price.

3) (12 points) For EITHER providing a legal system OR income redistribution, explain why it is an economic reason for a government.

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

A) When you do the second part of the final, you will assume that an increase in tax rates will increase tax revenue. However, that assumption may be false. Explain how that can be false with a numerical example.

B) When you do the second part of the final, you will assume that *Ricardian Equivalence* does not hold. Explain how Ricardian Equivalence would affect fiscal policy and why it would have that effect.

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

A) Draw the MS/MD diagram. Explain why the MD line looks as drawn.

B) If the CPI at the beginning of the year was 1000 and at the end of the year was 1030, then how much was the inflation rate? If people had expected 5% inflation, then who was hurt by the actual inflation? Mention two groups and explain how they are hurt.

C) Explain why monetarists say not to use monetary policy to affect the economy.

6) (18 points) Answer EITHER Part A OR Part B.

A) What is the problem facing Social Security? What caused it? Obviously, solving the problem will probably require multiple actions be taken. Which ONE action do you think is most important? Explain how that action would reduce the problem and why you feel that it is a good action.

B) Explain THREE reasons why measuring a country's happiness using real GDP per capita measured using PPP, could give a misleading answer.

7) (18 points) Draw the supply and demand for wooden desks. Illustrate the effects of EITHER an increase in the price of doors OR an increase in the price of electricity. Explain why the curve(s) moved as drawn. What happens to the price charged and the quantity sold?