

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. Because of classes after yours, I cannot give extra time.

1) (8 points each) For TWO of the following, determine whether that event is used in calculating GDP, going from GDP to NDP, from NDP to NNP, from NNP to NI, from NI to PI, or from PI to DPI. Explain why the variable is used at that point.

- A) A foreign company pays an American \$400 in dividends.
- B) Corporations pay \$6000 in taxes to the government.
- C) The government pays senior citizens \$2000 in Social Security.

2) (10 points) Answer EITHER Part A OR Part B.

A) If you spend \$400 to buy shares of Ford and pay \$10 in commissions, then what happens to GDP? Explain your logic by explaining which part of GDP is affected or why GDP is not affected. Explain both the \$400 and the \$10.

B) When you buy a toy made abroad two parts of GDP are affected. Which two parts? What is the net effect on the economy? Explain your logic.

3) (16 points) Explain EITHER the equation in Part A OR the equation in Part B.

A) $c_1 = (y + a_0 - c_0)(1 + r) + y_1$

B) $c = b_p y_p + b_T y_T$. Make sure you state what the estimated values of b_p and b_T are and why we use those values for them.

4) (18 points) Answer EITHER Part A OR Part B.

A) Draw the graph for Modigliani's Life-Cycle Model. Draw the effects of a temporary cut in taxes. Explain why the curve(s) moved as drawn. What happens to the amount of spending consumers spend? Explain your logic.

B) Draw the intertemporal budget constraint. Illustrate the effects of a decrease in the interest rate. Explain why it moves as drawn. Do you think that an increase in the interest rate will increase or decrease the saving done by consumers? Explain your logic.

5) (18 points) Answer EITHER Part A OR Part B.

A) Explain how the income and substitution effects combine to result in the labor demand curve's taking the shape we drew. Which effect is assumed stronger? Explain your logic.

B) Draw the supply and demand for labor. Illustrate the effects of a "positive supply shock" in the macroeconomy. Explain why the curve(s) moved as drawn. Make sure you give an example of a positive supply shock.

6) (22 points) Answer EITHER Part A OR Part B.

A) Draw the production function diagram which has production as a function of labor. Why does it take this shape? How does it relate to the labor supply/demand diagram? Explain your logic.

B) Draw the production function diagram which has production as a function of capital. Illustrate the effects of an increase in labor. Explain why it moved as drawn. What does the slope of the curve represent? Explain your logic.