

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. I cannot give extra time because some students have a class after your class.

Unless told otherwise, the “SRAS curve” refers to the “modern SRAS curve.”

- 1) (10 points) Explain how economic growth can cause EITHER *reduction in poverty* (for the country as a whole) OR *people feeling isolated*.
- 2) (12 points) Answer EITHER Part A OR Part B.
 - A) I saw a report on television on April 1st, which predicts the Egyptian population will double in 36 years. Approximately how fast is it growing? Show all work and briefly explain how you reached your conclusion.
 - B) In class, I said there are two important reasons for starting to save for retirement right immediately with your first paycheck rather than waiting ten years. What are the two reasons?
- 3) (12 points) Use the data below to answer ONE of the following parts. Suppose that consumers bought \$1000 worth of goods and services; firms built \$200 worth of new buildings; the government bought \$500 worth of goods and services; we exported \$100 worth of goods; we imported \$120 worth of goods; we earned \$15 from abroad while paying \$13 abroad; corporations had \$23 worth of machines wear out, paid \$17 in sales tax and earned \$25 in the form of subsidies from the government; the government paid \$140 in Social Security benefits; and individuals paid \$400 in income tax. **Show all work and state what you are adding and subtracting.** If you need some information not provided, assume it is zero.
 - A) Calculate GDP.
 - B) Suppose you had calculated NI was \$1500 (which it is not), then calculate PI using the data above.
- 4) (12 points) Draw EITHER the Classical SRAS Curve OR the AD Curve and explain why they look as drawn.
- 5) (14 points) Answer EITHER Part A OR Part B.
 - A) Most developing economies have a faster population growth than developed countries. What is the long term impact of the faster population growth on real GDP per capita? Explain two reasons why population growth would have this impact.
 - B) What is meant by “enforcing intellectual property rights”? How does that help the economy develop?
- 6) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of EITHER an increase in the income tax rates OR an increase in desired investment. Explain why the curve(s) moved as drawn. What happens to real GDP and to the price level?
- 7) (20 points) Answer EITHER Part A OR Part B.
 - A) Draw the SRAS/LRAS/AD diagram. Illustrate the effects of an increase in the amount of labor. Explain why the curve(s) moved as drawn. What happens to real GDP and to the price level?
 - B) Draw the SRAS/LRAS/AD diagram in a **inflationary gap**. Illustrate how the economy will get back to equilibrium if the government does nothing. Explain why the curve(s) moved as drawn. What happens to real GDP and to the price level?