

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 can give extra time.

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

A) Explain $Y = AK^3N^7$ including explaining why the .3 is less than the .7.

B) Explain $\Delta Y/Y = 3 - 2\Delta u$ including why the 3 is positive and why the 2 is greater than 1.

2) (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 and the desired amount of capital?

B) Draw the saving/investment diagram for a small open economy with a capital-financial account deficit. State how you know there is a capital-financial account deficit. Illustrate the effects of a temporary decrease in the tax rate assuming Ricardian Equivalence holds. Explain any movement(s) you make. What happens to the interest rate?

3) (16 points) Answer EITHER Part A OR Part B.

A) In the Dropkick Murphys' song "Workers' Song," they sing, "In the factories and mills, in the shipyards and mines. We've often been told to keep up with the times. For our skills are not needed, they've streamlined the job." What type of unemployment are they discussing? Explain your logic. The unemployment rate now is near what it was before the "great recession" but the labor force participation rate is much lower than then. Explain how that happens.

B) If you knew NI and wanted to calculate PI, what statistics would you need? How would you use them? Why would you add or subtract them?

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

A) Draw the labor supply/labor demand diagram. Illustrate the effects of an improvement in technology. Explain why the curve(s) moved as drawn. What happens to the wage rate and the number of people employed?

B) Draw the inter-temporal budget constraint. Illustrate the effects of a increase in the interest rate. Explain why the curve moved as drawn. Assuming the person started in the upper-left-hand part of the line, what likely happens to their consumption this year and what likely happens to their saving this year. Explain both the economic reason this occurs and how you can see the change in likely consumption on the graph.

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

A) Draw the Solow Growth Model diagram. Illustrate the effects of an increase in the growth rate of population. Explain why the curve(s) moved as drawn. What happens to the equilibrium capital-labor ratio and the equilibrium GDP per capita?

B) Use the endogenous growth model to explain why President George W. Bush cut the tax rates on capital gains and on dividends.

6) (20 points) Answer EITHER Part A OR Part B.

A) Use the IS/LM/FE diagram to prove the neutrality of money.

B) Draw the LRAS/SRAS/AD diagram showing a recessionary gap. Explain how you know it is a recessionary gap. If the economy is left alone, what will happen to the economy? Illustrate the effects on the graphs and explain why the curves moved as drawn.