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.

1) (10 points) For EITHER the event in Part A OR the event in Part B, determine what happens to GDP. Which part of GDP is affected? Explain your logic.
A) You buy $5000 worth of stock and pay $10 in commissions.
B) A firm does $200,000 worth of repairs on a building.

2) (10 points) Answer EITHER Part A OR Part B.
A) Why is limiting protectionism important for economic development?
B) Without drawing the diagram, explain why negative externalities result in a quantity produced which is not optimal. Make sure you state the equation which determines whether a point is socially optimal or not.

3) (10 points) In Homework Assignment #5, I had you calculate GDP, NDP, NI, PI, and DPI. For ONE of the events below, determine which step you would add or subtract that number. Explain why you chose that calculation and why you added or subtracted it.
A) The government pays out $200 via Medicaid.
B) Companies pay $75 worth of corporate tax.

4) (10 points) For EITHER the effect in Part A OR the effect in Part B, explain how economic growth can cause that to occur.
A) Breakdown of the family.
B) Increased urban congestion.

5) (12 points) Every statistic has problems with its definition which makes it less useful in measuring what we are trying to measure than we would like. For EITHER inflation OR the unemployment rate, explain two problems which make it less useful than we would like.

6) (14 points) Answer EITHER Part A OR Part B.
A) Suppose the CPI was 500 at the beginning of the year and the expected inflation rate was 8%. At the end of the year, the CPI was 510. What was the inflation rate? Show all work. Who is hurt? Explain your logic.
B) A country has 1000 people of working age. 630 have jobs. 70 do not have jobs, but are looking for a job. The remaining 300 are retired. What are the labor force participation rate and the unemployment rate? Show all work and explain why you did the calculations as you did them.

7) (16 points) Answer EITHER Part A OR Part B.
A) Suppose a project will help a thousand people $1 each, but will hurt one person $3000. Will voting, the market, both the market and voting, or neither give the optimal outcome? Explain your logic. Suppose a second project will help a thousand people $20 each, but will hurt one person $4000. Will voting, the market, both the market and voting, or neither give the optimal outcome? Explain your logic. Assume that if the market is providing the good, the price of the good in both cases $5 per person.
B) Suppose a person has an income of $50,000 and the tax brackets are given on the back. Find that person's marginal tax rate, total taxes paid, and average tax rate. Show all work and briefly explain what you did. If there is no work to show, state how you found the answer.

8) (18 points) What is the long-term problem facing Social Security? What are the two long-term trends which are causing this problem? State how they cause that problem. Two of the proposals for reducing the problem are to *eliminate the cap on taxable income* and *increasing the return on the lock box*. For ONE of those proposals, how would that help reduce the problem? Would you do that as part of a plan to save Social Security? Explain your logic as to why you would or would not do that. If you chose *increase the return on the lock box*, explain how that is achieved.

Income Bracket	Tax Rate
$0 - $20,000	10%
$20, 000 - $40,000	20%
$40,000 - $90,000	25%
$90,000 - $150, 000	30%
>$150,000	40%