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 C+I+G+X Curve OR the PPF, tell me what other graph that is similar to. Explain why they are similar.

2) (12 points) Draw EITHER the AD Curve OR the Classical SRAS Curve. Explain why it takes its shape.

3) (14 points) Answer EITHER Part A OR Part B.
A) When we calculated the government spending multiplier, we implicitly made a series of assumptions. What did we assume about imports? If we relax that assumption (no longer assume it), then what will happen to the government spending multiplier? Explain your logic.
B) Suppose the consumption function is given by C = 500 + 0.95(Y-T). Find the MPC, MPS, APC, and APS for a person with an income of $20,000. Show all work and if there is no work, state where you got the answer from.

4) (16 points) Draw the 45° diagram, a.k.a. the Keynesian Cross diagram. Illustrate the effects of EITHER the event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn. What happens to the equilibrium level of GDP?
A) Increase in the income tax.
B) The marginal propensity to consume increases.

5) (16 points) Answer EITHER Part A OR Part B.
A) Draw the SRAS/LRAS/AD diagram for an economy in a recessionary gap. State how you know it is a recessionary gap. If the economy is left alone, how will it get back to the long-run equilibrium? Explain why the curve(s) moved as drawn.
B) Draw the SRAS/LRAS/AD. Illustrate the effects of an improvement in technology. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?

6) (32 points) Draw the SRAS/LRAS/AD diagram and the Keynesian Cross, a.k.a. 45° diagram. Illustrate the effects of EITHER the event in Part A OR the event in Part B on the graphs. Show the **same event** on both graphs. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?
A) Chinese citizens are deciding they like our goods better than their own because they are better quality. Show that decision to prefer our goods <u>on the diagrams for the USA</u>.
B) The income tax rate goes up.