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) (12 points) For EITHER the event in Part A OR the event in Part B, explain how it affects M1 and M2. Explain your logic.
A) You transfer $100 from your checking account into your money market account.
B) You pay $90 for a watch using your credit card.

2) (12 points) Answer EITHER Part A OR Part B.
A) Donald Trump says in an advertisement that he will give the middle class a tax cut, save Social Security without cutting it, and strengthen the military. Assuming he does that, what will happen to the budget deficit? Explain your logic.
B) Ted Cruz says in an advertisement that he will eliminate the IRS and cut wasteful spending. Assuming that eliminating the IRS means eliminating the income tax and only relying on the other taxes, what will happen to the budget deficit? Explain your logic.

3) (12 points) Answer EITHER Part A OR Part B.
A) Suppose the US economy had an unemployment rate of 8% and the government's budget was balance. Would be the government's full employment budget be a deficit or a surplus? Explain your logic.
B) Explain the difference between the net public debt and the gross public debt. Which would be more likely to cause crowding out? Explain your logic.

4) (14 points) Define EITHER moral hazard OR adverse selection. Give an example of it from insurance.

5) (14 points) Answer EITHER Part A OR Part B.
A) Some people say the government's debt is a problem because we owe money to foreigners, which hurts the country. Explain the logic.
B) Explain the difference between the government's debt and its deficit.

6) (18 points) Answer EITHER Part A OR Part B.
A) Draw the MS/MD diagram. Illustrate the effects of the Fed buying bonds. Explain why the curve(s) moved as drawn. What happens to the interest rate and the amount of money?
B) Draw the MS/MD diagram. Illustrate the effects of an increase in GDP. Explain why the curve(s) moved as drawn. What happens to the interest rate and the amount of money?

7) (18 points) Answer EITHER Part A OR Part B.
A) Draw the LRAS/SRAS/AD diagram for a country in a inflationary gap. State how you know it is a inflationary gap. What type of fiscal policy would be best for that? Illustrate the effects of that policy on the diagram. Explain why the curve(s) moved as drawn. What happens to the price level and real GDP?
B) Suppose the government wants to expand the economy. What could they do to achieve that? Explain how that would impact the economy and why it would have that impact. Ricardian Equivalence will make this policy less effective. Explain why it makes the policy less effective.

Remember to fill out course evaluations.