

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

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

A) The book says that *limiting protectionism* is a good way to help a country develop. What does that mean? How does it help the country?

B) We made several assumptions when we calculated the government spending multiplier. What did we assume about interest rates? If we relax the assumption, what happens to interest rates? How does that affect the size of the government spending multiplier? Why does it have that effect?

2) (12 points) Answer EITHER Part A OR Part B.

A) Use economic logic and terminology to explain we did not have 100% attendance at my review sessions.

B) Use economic logic and terminology to explain Chemistry professors are typically paid much more than professors who teach French.

3) (14 points) Answer EITHER Part A OR Part B.

A) Draw a PPF for pears and bricks. Illustrate the effects of an improved fertilizer. Explain why the curve moved as drawn.

B) When I graded the homework question about the opportunity costs of going to Penfield College, I accepted housing as an opportunity cost for some students but not for other students. Explain both how it could be an opportunity cost and how it might be an opportunity cost.

4) (14 points) Answer EITHER Part A OR Part B.

A) Suppose that you knew how much GDP was and you wanted to calculate NDP. What piece of data you would need? Suppose you knew PI and wanted to calculate DPI. What piece of data would you need? For both parts, explain how you would use them and why you would use them in that manner.

B) Suppose that at the beginning of the year the CPI was 500 and people expected inflation of 15%. At the end of the year, the CPI was 550. What was the inflation rate? Show all work. Who was helped by the unexpected change of inflation? Explain your logic.

5) (14 points) Answer EITHER Part A OR Part B.

A) Collateral reduces both the problems of adverse selection and moral hazard. Define either moral hazard or adverse selection and explain how collateral can reduce it.

B) I mentioned briefly that there is another category of money called M1Z. It includes all of M1 plus savings accounts and money market accounts, but nothing else from M2. What part of M2 is not in M1Z? Why do you think savings accounts and money market accounts are in M1Z but not the other parts of M2? (Hint: Why do you hold money in M1 rather than in M2?)

6) (16 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand diagram for tomatoes. Illustrate the effects of an increase in the wages paid to farm hands. Explain why the curve(s) moved as drawn. What happened to the price of tomatoes and the quantity sold?

B) Draw the supply and demand for leather coats. Illustrate the effects of an increase in the price of steak. Explain why the curve(s) moved as drawn. What happened to the price of coats and the quantity sold?

7) (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 *raising the retirement age* and *decreasing Social Security benefits*. 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.