

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 150 points (to be scaled up to 210 points) and is scheduled to take 75 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, but not much.

1) (12 points each) Trump has done, or said he will do, several things to affect the long-term growth of the economy. For TWO of the following, explain how it relates to the Endogenous Growth Theory's equation. Explain whether that would imply his policy is a good policy or a bad one.

- A) He has cut the income tax rates.
- B) He has cut the corporate tax rates.
- C) He says he wants to improve the infrastructure.
- D) He has increased government spending.

2) (14 points) Explain EITHER $MD/P = L(Y, r+\pi^e)$ OR demand for an asset = $F(\text{risk, liquidity, expected return})$

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

- A) What are the three functions of money? What one would you say M2 does a better job at than M1? Explain your logic.
- B) What are the three functions of money? What one would you say M1 does a better job at than M2? Explain your logic.

4) (16 points) For EITHER the event in Part A OR the event in Part B, determine which account gets the debit and which gets the credit. What happens to NX, CA, short-term KFA, and long-term KFA? State how you reached your conclusions.

- A) You sell \$1000 worth of stock in Samsung to a Korean.
- B) You buy \$400 worth of shirts made in Jordan.

5) (16 points) Answer EITHER Part A OR Part B.

- A) Draw the Solow Growth Model diagram. Illustrate the effects of an improvement in technology. Explain why the curve(s) moved as drawn. What happens to the capital-labor ratio and GDP per capita?
- B) Draw the Solow Growth Model diagram. Illustrate the effects of a decrease in the saving rate. Explain why the curve(s) moved as drawn. What happens to the capital-labor ratio and GDP per capita?

6) (18 points) Answer EITHER Part A OR Part B.

- A) Draw the Solow Growth Model diagram. Explain how we find the most desirable place on the graph.
- B) The USA has a faster population growth rate than most developed countries and we have a smaller saving rate than most countries. **Without** drawing the graph for the Solow Growth Model, explain what that means about the GDP per capita for the USA compared to other developed countries. Explain your logic.

7) (20 points) Answer EITHER Part A OR Part B.

- A) Draw the S/I diagram for a small country which has balanced trade. Use it to explain the term "twin deficits." Explain how your graph shows that.

B) Give an example of an “increase in US owned assets abroad.” Explain why it fits that description. By itself, what does that do to the KFA? Briefly explain your logic. Give an example of a “decrease in foreign owned assets in the USA.” Explain why it fits that description. By itself, what does that do to the KFA? Briefly explain your logic.

8) (26 points) Answer EITHER Part A OR Part B.

A) Draw the S/I diagram for a large country with a current account surplus. Explain how you know your diagram shows a current account surplus. Illustrate the effects of a decrease in the foreign corporate tax rate. Explain why your curve(s) moved as drawn. What happens to the level of saving in both countries, level of investment in both countries, current account surplus, and the world interest rate? (Basically this is what President Trump did back in January, except the USA would be ROW and the ROW would be the large country.)

B) Draw the S/I diagram for a large country with a capital-financial account surplus. Explain how you know your diagram shows a capital-financial account surplus. Illustrate the effects of an increase in the foreign stock market. Explain why your curve(s) moved as drawn. What happens to the level of saving in both countries, level of investment in both countries, capital-financial account surplus, and the world interest rate?