Wilfrid W. Csaplar Jr., Ph.D.   Economics 162   Final Part 1   2019/5/2

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. However, you can take the full one hour 20 minutes.

1) (10 points) Answer EITHER Part A OR Part B.
A) I was offered a free lunch last Thursday. I turned it down. Use logic and terminology from economics to explain why I turned down the free lunch.
B) On Tuesday of this week, the Democrats who met with President Trump said all of them agreed that the government will spend $2 trillion on infrastructure. I predict this will not happen. Use language and terminology from economics to explain why this is unlikely to occur. (The current GDP is about $21 trillion.)

2) (12 points) For EITHER the Fed OR the FDIC. Tell me what that organization does.

3) (12 points) Answer EITHER Part A OR Part B.
A) The PPF and a curve we discussed towards the end of the semester are virtually the same. Which curve is it? Why are they virtually the same?
B) What does the Law of Comparative Advantage imply about President Trump's threats to restrict trade with China? Explain your logic. (Ignore the humanitarian reasoning for doing it. Only examine the economics.)

4) (16 points) Answer EITHER Part OR Part B.
A) Draw the supply and demand for jeans. Illustrate the effects of a decrease in the price of cotton sheets. Explain why the curve(s) moved as drawn. What happens to the price of jeans and the quantity sold?
B) Draw the supply and demand for custom made suits. Illustrate the effects of an increase in the wages of seamstresses. Explain why the curve(s) moved as drawn. What happens to the price and quantity of suits sold?

5) (16 points) Answer EITHER Part A OR Part B.
A) Suppose there is a project which will cost $2000. It will enable the organization who does the project to sell 1 item to each of 900 people at $3 profit per item. There is a negative externality which affects 400 people and it costs each of them $2 each. Should the project be done? Explain your logic. Would the market provide it? Explain your logic. Would the government provide it? Explain your logic.
B) Use the supply and demand for a good that has positive externalities like immunizations for infectious diseases. Use the diagram to prove we will not get the optimum number of immunizations. Do not worry about solving the problem. (The recent news about the measles outbreak shows this problem in real life.)

6) (16 points) Answer EITHER Part A OR Part B.
A) Suppose that at the beginning of the year, the CPI was 700 and people expected 10% inflation. At the end of the year, the CPI was 749. How much was the inflation rate? Show all work. Name a group of people who were hurt by the inflation. Explain why they were hurt.
B) Suppose a country has 540 employed people, 60 people looking for jobs, 200 people who are retired,

50 people who want to work but are not looking for a job, and 150 stay-at-home parents. Calculate the unemployment rate and the laborforce participation rate. Show all work and briefly state why you did or did not use each of the numbers.

7) (18 points) Answer EITHER Part A OR Part B.
A) What is the long-term problem facing Social Security? What are the two trends which mean the problem will get worse for at least a decade? One proposal to solve the problem is to *reduce the benefits for all people*. How would that reduce the problem? Would you do that as part of your proposal? Explain your logic
B) All statistics have problems with their definition which make them less useful than we would like them to be. What are three problems with the definition of GDP which means that it systematically underestimates the production of poor developing countries? Explain why they cause a systematic underestimation.