If you are not in the classroom with me, you must be on Zoom with both your camera and microphone on.

Do NOT write your name anywhere. (Canvas will tell me who turned in the exam.) Take pictures of your answers and use your own app or one of the pages I have links to on my home page to create a PDF for each answer which requires an upload. If it is large, resize it to A4. Upload that to Canvas. Upload each answer as a separate file with that question. Failure to follow directions will cost you one point. People with Apple products may need to us CamScanner app.

You are not allowed to use your books, notes, the internet, or other people when taking this test.
You can use the internet to access Canvas and to convert your answers to PDF files. Nothing else.

If you run out of time or lose your internet connection, you can do a second submission. You do NOT have to redo the questions you already did. I will be able to see every submission. If you have problems, you can always contact me via Zoom or e-mail.

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 have it set up to only give you an hour and a half.

1) (10 points) For either the role of the Fed in Part A or the role of the Fed in Part B, what does that mean?
A) Supplies fiduciary money.
B) Holds the banks' reserves.

2) (10 points) Define EITHER FDIC OR crowding out.

3) (12 points) Answer EITHER Part A OR Part B.
A) What is the difference between the *budget deficit* and the *full employment budget deficit*?
B) What automatically happens to the government's budget deficit when the economy picks up? Explain why that happens.

4) (14 points) Answer EITHER Part A OR Part B.
A) How can a budget deficit cause a trade deficit? In other words, explain the term *twin deficits*.
B) Explain why it is hard to cut the government deficit by cutting spending.

5) (18 points) Answer EITHER Part A OR Part B.
A) There are four functions of money. What are THREE of them? For ONE of them, would M1 or M2 do a better job at that? Explain your logic.
B) For the following three events, explain what happens to M1 and M2. Briefly explain your

logic. You transfer $100 from your checking account to your savings account. You withdraw $30 cash from your money market account. You pay for a $50 shirt with a credit card.

6) (18 points) Answer EITHER Part A OR Part B.
A) What is *adverse selection*? Give an example of it and explain one way which the financial intermediary reduces the problem and why that action reduces the problem.
B) What is *moral hazard*? Give an example of it and explain one way which the financial intermediary reduces the problem and why that action reduces the problem.

7) (18 points) Answer EITHER Part A OR Part B.
A) What is the difference between the *gross public debt* and *net public debt*. Which do you think is a bigger problem? Explain your logic. Make sure you mention one of the problems caused by a large debt.
B) What is the difference between the *public debt Paul O'Neill discussed* and *net public debt*. Which do you think is a bigger problem? Explain your logic. Make sure you mention one of the problems caused by a large debt.