Wilfrid W. Csaplar Jr., Ph.D. Economics 202 Exam #3 early version for a person taking comps 2022/4/17

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

1) (10 points) Answer EITHER Part A OR Part B.
A) Explain how *demand pull inflation* gets its name.
B) Explain what might cause a *supply shock* to occur.

2) (12 points) Answer EITHER Part A OR Part B.
A) There are three automatic stabilizers. Tell me what one of them is and why it is called an automatic
stabilizer.
B) Even though the FDIC is not considered an automatic stabilizer. What is it? Explain how it prevents
the economy from collapsing.

3) (12 points) Answer EITHER Part A OR Part B.
A) Money should be a good medium of exchange. What does that mean? Is M1 or M2 better at that?
Explain your logic.
B) What is the Federal Reserve? What are two of the jobs it does?

4) (12 points) Answer EITHER Part A OR Part B.
A) When we estimated the size of the government spending multiplier, what was the first value we came
up with? If the government wanted to increase GDP by $1000, then how much more would they have to
spend? How did you reach that conclusion?
B) When we estimated the size of the government spending multiplier, we implicitly made a series of
assumptions. What did we assume about imports? If we relax that assumption, what happens to the size
of the government spending multiplier? Explain your logic.

5) (16 points) Answer EITHER Part A OR Part B.
A) We said that *Ricardian equivalence* may make counter-cyclical fiscal policy either less effective or
counter-productive. Explain why this is true. Do you believe it is a problem? Explain your logic.
B) We said that *crowding out* may make counter-cyclical fiscal policy either less effective or counter-
productive. Explain why this is true. Do you believe it is a problem? Explain your logic.

6) (16 points) Explain what EITHER *adverse selection* OR *moral hazard* are. Give an example of it and
explain how the appropriate party tries to reduce that problem.

7) (16 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 quantity of money and the interest rate?
B) One of the reasons that the AD curve slopes down is the *interest rate effect*. Use the MS/MD diagram
to explain that reason why the AD curve slopes down.

8) (18 points) Answer EITHER Part A OR Part B.
A) In 2022, the price of oil has greatly increased. Draw the LRAS/SRAS/AD diagram and illustrate the
effects of the increase in the price of oil. Explain why the curve(s) moved as drawn. What happens to
the inflation rate, unemployment rate, and GDP?

B) The current unemployment rate is 3.6%. Draw the LRAS/SRAS/AD diagram to show that unemploy-ment rate. State how your graph shows 3.6%. If the government does nothing, what will happen to bring us back to equilibrium? Explain why the curve(s) moved as drawn. What happens to the inflation rate, unemployment rate, and GDP?

https://www.bls.gov/charts/employment-situation/civilian-unemployment-rate.htm

9) (18 points) Answer EITHER Part A OR Part B.
A) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of destruction of buildings. Explain why the curve(s) moved as drawn. What happens to the GDP, unemployment rate, and inflation rate?
B) Draw the LRAS/SRAS/AD diagram. Illustrate the effects of an increase in government spending. Explain why the curve(s) moved as drawn. What happens to the GDP, unemployment rate, and inflation rate?

10) (20 points) For EITHER the problem with the debt listed in Part A or the problem with the debt listed in Part B, explain what the issue is. Then tell me if that is caused by net public debt, gross public debt, or Paul O'Neill's debt. Explain your logic. Is that problem a problem or not? Explain your logic.
A) Crowding out
B) High interest payments