

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 (but you can take the full time). 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) In the song, “Kiss Me I’m #!@*faced”, The Dropkick Murphys sing, “I designed the Sears Tower. I make two grand an hour. I cook the world’s best duck flambé.” Assuming everything he said is true (which it isn’t), given that duck flambé takes about 3 hours to cook (tastemade.com), should he make his own duck flambé? Explain your reasoning using terms and logic from this course.

B) Use terminology and logic from this course to explain why business professors are not willing to work for as little as art professors are willing to work for.

2) (14 points) Answer EITHER Part A OR Part B.

A) All statistics have a problem with their definition which makes it less useful than we would like it to be. What are TWO of the problems with the inflation statistic? Briefly explain how those problems make the statistic less useful than we would like.

B) The book says that income redistribution is a non-economic reason for government. However, I argued that some income redistribution is an economic reason for government. (However, too much redistribution is worse than no redistribution.) Explain why it is also an economic reason.

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

A) What is the Keynesian Liquidity trap? Explain why it may make counter-cyclical monetary policy ineffective.

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.

4) (14 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.

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

A) According to the article on AARP (which you read for Homework #4), the Social Security Trust Fund will run out of money in 2034. What are the two long-term trends which are causing that? One possible solution to the problem is to increase means test benefits. How would that reduce the problem? If you were the President, would you include that as part of your solution? Explain your logic.

<https://www.aarp.org/retirement/social-security/info-2020/10-myths-explained.html>

B) One of the book’s “keys for development” is “limiting protectionism”. What does that mean and how does that help an economy to grow?

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

A) Draw the S/D for windows. Illustrate the effects of an increase in the price of mirrors. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold of windows?

B) Draw the S/D diagram for cars. Illustrate the effects of a decrease in the price of aluminum and steel. Explain why the curve(s) moved as drawn. What happens to the price and quantity of cars sold?

7) (16 points) Answer EITHER Part A OR Part B.

- A) Suppose that a project costs \$7000. If completed, it would allow the firm to sell 1 item to each of 400 people at a profit of \$20 per item. There is a negative externality which affects 200 people at a cost of \$6 per person. Should this project be done? Would the market provide it? Would the government provide it? Show all work for each calculation and briefly explain what you did.
- B) Draw a PPF for cars and desks. Illustrate the effects of a new law which prevents logging on government owned property. Explain why the curve moved as drawn.