

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 and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. Therefore, a 18-point question should take 9 minutes. I will give a few extra minutes, but probably no later than about 5 or 10 after the hour.

1) (8 points) Define EITHER nominal GNP OR net exports.

2) (12 points) Do EITHER part A OR part B.

- A) What are the problems with high inflation that is exactly what people predicted?
- B) If the inflation rate was expected to be 7% and it turned out to be 11%, then who would gain and who would lose? Briefly explain how you determined each.

3) (12 points) For EITHER the event in part A OR the event in part B, determine if it is a part of GDP. If it is, then tell me whether it is C, I, G, or X and tell me why. If it is not, then tell me why it is not.

- A) I pay you to clean my apartment.
- B) You go to a concert by Less Than Jake.

4) (16 points) Do EITHER part A OR part B.

- A) Use the box on the right to calculate the CPI. How much inflation had there been? Show all work, and give a one-sentence explanation of what you did.
- B) Use the box on the right to calculate both the labor force participation rate and the unemployment rate. Show all work and give a one sentence explanation of what you did.

	$P_t$	$P_0$	$Q_t$	$Q_0$
Melons	\$2/melon	\$1/melon	50 melons	75 melons
Tea	\$4/lb	\$5/lb	4.5 lbs	5 lbs

Classifica- tion:	Looking for a job	Employed	Home maker	Discouraged
# of people	50	950	800	200

5) (16 points) Do EITHER part A OR part B.

- A) Is GNP a stock or a flow? Why did you say that? Make sure you define both stock and flow.
- B) Explain why the CPI is biased upward.

6) (16 points) Do EITHER part A OR part B.

- A) Why do open economies grow faster? Make sure you explain what causes economic growth and what how savings helps that growth.
- B) Why should we let “creative destruction” take place?

7) (20 points) Do EITHER part A OR part B based upon this proposal. Suppose that the following Social Security reform became law: All current Social Security recipients will continue to receive their benefits, but no increase will be made other than cost-of-living adjustments; Americans between age 40 and retirement not yet on Social Security can opt to continue with the current system; those who opt out must place what they would have “contributed” to Social Security into one or more government-approved mutual funds; and those under 40 must place their “contributions” into one or more government-approved mutual funds.

- A) Would the people currently under 40 like this? Why or why not? How should the government decide which mutual funds are approved? Why do you say that?
- B) Would the people between 40 and retirement like this? Why or why not? Would the people that do NOT currently own stocks like it? Why or why not?