

Do NOT write your name anywhere. (Canvas will tell me who turned in the exam.) Take pictures of your answers and use your own software or <https://pdfcandy.com/> to create a PDF for each answer which requires an upload. If it is large, resize it to 8.5" x 11" or 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 use 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. If you use Zoom, open it in a new tab or window.

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) (12 points) Answer EITHER Part A OR Part B.

A) Suppose you transferred \$5000 from your savings account to your checking account. Then you wrote a check for tuition to Bethany College for \$4500, which the college deposits. What is the net effect of these actions on M1 and M2? Explain your logic.

B) We discussed two reasons why monetary policy may not work or may be counter-productive. Explain ONE of them. Make sure you explain why it means we may not want to do monetary policy.

2) (12 points) For EITHER lags OR crowding out, explain how that problem could make fiscal policy either completely ineffective, less effective, or counter-productive.

3) (12 points) Answer EITHER Part A OR Part B.

A) The USA has a huge debt. What do you feel is the biggest problem caused by it? Explain your logic.

B) Paul O'Neill argued that the national debt is much larger than what we borrowed. Explain his logic. What other debt did he include? Why did he include it?

4) (12 points) Answer EITHER Part A OR Part B.

A) Explain why the LRAS curve is a vertical line.

B) Students often say, "When the price level increases, people cannot afford to buy as much. That is why AD slopes down." What is wrong with that argument?

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

A) What is the FDIC and *moral hazard*? How does the existence of the FDIC result in a moral hazard problem for some banks?

B) What is meant by *adverse selection* and *financial intermediation*? Give an example of adverse selection and use that example to explain why we use financial intermediaries.

6) (36 points) Answer EITHER Part A OR Part B.

A) Draw the SRAS/LRAS/AD diagram for an economy in a recessionary gap. State how you know it is a recessionary gap. Draw the MS/MD diagram. What **fiscal** policy is best for the economy? Illustrate the effects of that policy on both diagrams. Explain why the curves moved as drawn. What happens to inflation, GDP, unemployment rate, money supply, and interest rates?

A) Draw the SRAS/LRAS/AD diagram for an economy in a recessionary gap. State how you know it is a recessionary gap. Draw the MS/MD diagram. What **monetary** policy is best for the economy? Illustrate the effects of that policy on both diagrams. Explain why the curves moved as drawn. What happens to inflation, GDP, unemployment rate, money supply, and interest rates?