

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

- 1) (12 points) Explain EITHER why the AD curve slopes down OR why the LRAS curve is vertical..
- 2) (12 points) Answer EITHER Part A OR Part B.
  - A) Explain why saving is important for economic growth.
  - B) According to <https://www.globaltimes.cn/page/202101/1213106.shtml>, the Chinese GDP in 2020 was 101.6 trillion yuan. How should we convert that to US\$? Explain how that method works.
- 3) (12 points) Answer EITHER Part A OR Part B.
  - A) There is a bill before Congress which will allow India and South Africa (and probably one South American country) to have a one-time exemption on the COVID-19 vaccine patents. That would allow India to produce the three vaccines for distribution in Asia and South Africa to produce and distribute the vaccine for Africa. (Both countries already produce a lot of pharmaceuticals.) From a purely economic reason, do you think this is a good idea or not? Explain your logic.
  - B) Your textbook says that one of the keys to development is to “limit protectionism.” What does that mean? How does that help the economy? Explain your logic.
- 4) (14 points) Answer EITHER Part A OR Part B.
  - A) Suppose a person’s consumption function is given as  $C = 100 + .8(Y-T)$ . If their disposable income is \$50,000.00, then how much are their MPC, MPS, APC, and APS? Show all work. If there is no work, then briefly state how you got the answer.
  - B) When we calculated the government spending multiplier, what did we assume about tax revenue? If we relax that assumption, what happens to the size of the multiplier? Explain your logic.
- 5) (14 points) Answer EITHER Part A OR Part B.
  - A) What are the *expenditure method* and *value added method* of calculating GDP? Why should they give the same answer?
  - B) If you had calculated NI and wanted to calculate PI, what would you need to add and subtract? Explain why you would need to add and subtract them.
- 6) (16 points) Draw the Keynesian Cross,  $45^\circ$  diagram for the USA. Illustrate EITHER the effects of the event in Part A OR the events in Part B. Explain why the curve(s) moved as drawn. What happens to the level of GDP in the USA?
  - A) The Canadian economy improves.
  - B) The MPS decreases.
- 7) (20 points) Draw the SRAS/LRAS/AD diagram. Illustrate EITHER the even in Part A OR the event in Part B. Explain why the curve(s) moved as drawn. What happens to real GDP, inflation, and the unemployment rate?
  - A) The government increases taxes.
  - B) The population increases.