

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. Therefore, expect to spend 1 minute for every 2 points. For example, a 12-point question should take 6 minutes.

1) (10 points) Answer EITHER Part A OR Part B.

A) When running for re-election, President Obama said, "As long as there is a single person who is unemployed, looking for a job, and can't find one, we [the Obama Administration] have not done our job." Prove that using his logic, it is impossible for him to do his job.

B) If people had predicted 8% inflation but the inflation rate turned out to be 5%, then who is hurt by the 5% inflation? Explain your logic citing two groups of people.

2) (10 points) For EITHER the unemployment rate OR real GDP per capita converted using PPP, explain why that variable may result in an inaccurate view of what is occurring in the economy.

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

A) In most colleges and universities, business professors get paid better than English professors who get paid better than art professors. What is the economic reason for this?

B) Explain why the price of one good might affect the economic cost of producing another good.

4) (16 points) Answer EITHER Part A OR Part B.

A) In the second half of the final, you should assume there is no Ricardian Equivalence. What is Ricardian Equivalence? Why do you need to assume it does not exist while doing the second half of the final? You do NOT need to prove it.

B) What is the FDIC? How can its existence lead to moral hazard with respect to the people running the bank? Explain your logic.

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

A) Draw the PPF for bananas and tablet computers. Illustrate the effects of longer lasting computer batteries. Explain why the curve moved as drawn.

B) Draw a good with a price ceiling. Prove the consumers are hurt by the price ceiling.

6) (18 points) Illustrate the effects of EITHER the event in Part A OR the event in Part B on the supply and demand for desks. What happens to the price and quantity of desks sold? Explain why the curve(s) moved and how you saw the change in price and quantity.

A) The price of wood increases.

B) There is an increase in the price of the special tools used to produce desks.

7) (18 points) Answer EITHER Part A OR Part B.

A) If the initial CPI was 500 and a year later it was 510, then how much inflation was there? Show all work. If people expected 3% inflation, then who was hurt by the inflation? Explain your logic.

B) What is the problem facing Social Security? What are the two big causes of this problem? One proposal for reducing the problem is to increase the retirement age. How would increasing the retirement age reduce the problem? Would you do it? Why or why not?