

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.

1) (12 points) Answer EITHER Part A OR Part B.

A) What are *public goods*? Why do we need a government to provide them? Explain your logic.

B) All statistics have problems with the way they are calculated, which makes them less useful than we would like them to be. What are TWO of the problems with calculating inflation? Briefly explain the problem.

2) (12 points) Answer EITHER Part A OR Part B.

A) Use terminology and logic from this course to explain why rich people don't clip coupons but poor people do.

B) Two hundred years ago, most things you bought required negotiating the prices. Now, almost nothing requires negotiating. Use terminology and logic from this course to explain why the economy changed to our present system of non-negotiated prices.

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

A) If the MPC is .8, then how much would our model predict the size of the government spending multiplier to be? Show all work. Assuming your answer is greater than 1, how can the government spending \$1 cause GDP to increase by more than \$1? Explain your logic.

B) I told you that a study of the 2008-2009 stimulus packages estimated a government spending multiplier which was much less than what our model predicts. What are TWO of the reasons our model over-estimates the size of the multiplier? Explain your logic.

4) (14 points) Answer EITHER Part A OR Part B.

A) Draw a PPF for coats and shoes. Find a point on the graph where the opportunity costs of a coat is approximately 2 pairs of shoes. Explain how you know that point is at approximately the correct point.

B) Draw a PPF for coffee and potatoes. According to the article below, climate change will hurt yields of those two crops. Illustrate the effects of climate change on the graph. Explain why the curve moved as drawn. Do not go to the website now:

<https://www.actionagainsthunger.org/story/8-crops-endangered-climate-change/>

5) (14 points) Answer EITHER Part A OR Part B.

A) What are THREE of the four uses of money? For ONE of them, does M1 or M2 do a better job at that? Explain your logic.

B) There are three reasons why expansionary monetary policy **may** not work. Explain ONE of them.

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

A) Draw the S/D diagram for beef in the grocery store. Illustrate the effects of more bio-plastics being produced. (Bio-plastics are often made of corn oil. Beef cattle are fed a lot of corn.) Explain why the curve(s) moved as drawn. What happens to the price of beef and the quantity of beef sold?

B) Draw the S/D diagram for automobiles. Recently, the United Auto Workers negotiated a 25% wage

increase over four years. Illustrate the effects of that agreement on the graph. Explain why the curve(s) moved as drawn. What happens to the price of a new car and the quantity sold?

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

A) What are the two long-term trends which will cause the Social Security Trust Fund to run out of money? Explain how they will have that effect. One proposal to save Social Security, is to cut benefits by 20% for all people who retire after 2033. How would that reduce the problem? If you were the President, would you include that as part of a package to save Social Security? Explain your logic.

B) Suppose a factory costs \$1000 to build. It will be able to make 500 items which can be sold for a profit of \$3 per unit. (Assume each item is sold to a different person). The factory will affect 400 people negatively, hurting each person \$2 each. Should the factory be built? Will the industry do it? Would the government do it? For all three parts, show all work and explain how you reached the conclusion.

Remember, you really should watch the review session for the second half of the final today at 4:00 live or the recording. If you do not, there are several errors you are likely to make on the second half of the final, which is Thursday at 1:00. It is open notes and open books. Also, fill out course evaluations.