

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 A4. Upload that to Canvas. Upload each answer as a separate file with that question. Failure to follow directions will cost you one point.

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.

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. I have it set up to only give you 2 hours.

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.

I realize I made it out of 102 points. So, it is possible to get 102/100. (I just did not see any place to cut out 2 points.)

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

- A) Use terminology from this course to explain why people shop at convenience stores even though they charge more than other stores.
- B) Use terminology from this course to explain why business professors typically earn a lot more than art professors. There are two possible explanations, the preferred one does not involve supply/demand. I will accept S/D assuming you explain why the diagram is different for the two groups. Remember, you cannot draw a graph for this answer.

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

- A) There are several reasons why counter-cyclical fiscal policy may not work as desired. For one of the strong arguments, explain how it might cause fiscal policy to either not work as well or be counter-productive.
- B) There are several reasons why counter-cyclical monetary policy may not work as desired. For one of the strong arguments, explain how it might cause monetary policy to either not work as well or be counter-productive.

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

- A) Draw the PPF for the USA with pork and toilet paper as the goods. Illustrate the effects of COVID-19 on it. Explain why it moved as drawn.
- B) I said “income redistribution” is an economic reason for government. Obviously, too much income redistribution is bad. Explain why some economic redistribution will help the economy.

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

- A) Suppose that at the start of the year, the CPI was 1400 and at the end of the year it was 1470. What was the inflation rate? Show all work. If people had expected 10% inflation, would employees and lenders be hurt or helped? Explain your logic.
- B) Suppose that the consumption function was $C = 400 + .8(Y-T)$. If a person’s disposable income was

\$4000, then what is her MPC, MPS, APC, and MPC? Show all work. If there is no work, then explain how you got your answer.

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

A) Draw the supply/demand diagram for corn in the grocery store. Illustrate the effects of an increase in the price of ethanol. (Ethanol is a substitute for gasoline which is derived from corn.) Explain why the curve(s) moved as drawn. What happens to the price and quantity of corn sold in a grocery store.

B) Draw the supply/demand diagram for bread in the grocery store. Illustrate the effects of an increase in the price of wheat. Explain why the curve(s) moved as drawn. What happens to the price and quantity of bread sold in a grocery store.

6) (18 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand face masks. Illustrate the effects of a quota on them. Explain why the diagram changes as drawn. What happens to the price and quantity sold? Are consumers hurt or helped? Are producers hurt or helped? Briefly explain your logic.

B) Suppose there is a project which will cost \$2000. It will enable the organization who does the project to sell 1 item to each of 800 people at \$3 profit per item. There is a negative externality which affects 600 people and it costs each of them \$1 each. Should the project be done? Explain your logic. Would the market provide it? Explain your logic. Would the government provide it? Explain your logic

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

A) Explain how the country saving more now helps increase GDP at full employment. If your bank account pays 1% interest, then how long will it take to double? Show all work. What is the economic reason why it isn't 100 years?

B) What is the long-term problem facing Social Security? What two reasons will cause the problem to get worse over the next decade or more? One way to reduce the problem is to eliminate the cap on taxable income. How would that reduce the problem? If you were President of the USA, would you use this as part of your plan to save Social Security? Explain your logic.