

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 can give some extra time.

- 1) (10 points) Explain EITHER $r_{a-t} = i(1-t) - \pi^e$ OR $I^d = S^d + KFA$.
- 2) (12 points) For EITHER the saving line OR the uc_K line, draw it. Explain why it has the slope you drew.
- 3) (14 points each) For TWO of the following events, find the debit and the credit. Briefly state how you knew what they were. Find the values for NX, CA, short-term KFA, long-term KFA, and KFA.
 - A) You decide to sell \$500 worth of shares of the Chinese company Huawei because you predict other countries will follow Trump's banning them from entering the market.
 - B) I buy a \$15 CD directly from an Australian company.
 - C) Last semester Bethany College paid the Arabic professor for teaching online from Gaza. Suppose she earned \$10,000 for the semester.
- 4) (18 points) Answer EITHER Part A OR Part B.
 - A) Draw an S/I diagram for a small open economy with a current account deficit. Briefly explain how you know it has a current account deficit. Illustrate the effects of the world interest rate increasing. Explain why the curve(s) moved as drawn. What happens to the level of saving, level of investment, and the current account deficit?
 - B) Draw an S/I diagram for a small open economy with a capital-financial account deficit. Briefly explain how you know it has a capital-financial account deficit. Illustrate the effects of Trump's decreasing the corporate tax rate.. Explain why the curve(s) moved as drawn. What happens to the level of saving, level of investment, and the capital-financial account deficit?
- 5) (32 points) Draw the MPK^f/uc_K diagram and the S/I diagram for a closed economy. Illustrate EITHER the event in Part A OR the event in Part B on the two diagrams. Use the same event for the two diagrams. Explain why the curves moved as drawn. What happens to the user cost of capital, desired amount of capital, level of saving, the real interest rate, and the level of investment.
 - A) A negative productivity shock.
 - B) The wealth of the country increases.