

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. The Excel file will be handed in via Canvas. Your name will only appear on a page of the file that has nothing else on it. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes (but you can take the full 2 hours.) Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5 minutes.

1) (8 points each) This question refers to the [Excel © file's](#) page called "CPI." Do ALL three parts.

- A) Find the CPI and inflation rate using the Laspeyres Price Index with 2008 as a base year.
- B) Find the CPI and inflation rate using the Paasche Price Index with 2008 as a base year.
- C) Find the PCE Index for each year. using 2008 as the base year, then find the values for the inflation rates each year.
- D) What is one year which would be a bad one to use as a base year? Explain your logic.

2) (8 points) Answer EITHER Part A OR Part B.

- A) Explain the difference between the government deficit and the government debt.
- B) Which affects people's actions, marginal tax rates or average tax rate? Explain your logic.

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

- A) Do economists normally look at the actual budget deficit/surplus or the full-employment deficit/surplus when determining whether a fiscal policy is appropriate for the economy? Explain your logic.
- B) What are the automatic stabilizers? Explain why they are called that.

4) (14 points) Use the following data to calculate TWO of the following, actual budget deficit/surplus, full-employment budget deficit/surplus, and primary budget deficit/surplus. Show all work and briefly explain what you did. Make sure you state whether that is a deficit or a surplus and how much it is. The GDP is \$1300 and the full employment level of GDP is \$1400. Government spending is \$200. Transfers are $300 - .1 * \text{GDP}$. Tax revenue is $.3 * \text{GDP}$. Interest payments are \$50.

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

- A) What is the difference between using *rules* for monetary policy and using *discretion*? If you were the Chairman of the Fed, which would you use? Explain your logic.
- B) If a central bank is doing active monetary policy, then why is it important that the central bank have credibility? What can they do to get credibility if they do not have it already? Explain your logic.

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

- A) Use the real MS/MD diagram to prove the Fed cannot control both the money supply and the interest rates.
- B) What are the lags in monetary policy? Explain how they could make counter-cyclical monetary policy counterproductive at some times.