

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 cannot give extra time some students have a class after your class.

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

A) Why did almost no events change M2? What did change M2? Why does that change M2?

B) Does M1, MZM, or M2 do a better job as a store of value? Explain your logic.

2) (14 points) For EITHER the item in Part A OR the item in Part B, explain how it will impact expansionary fiscal policy. Do you think this is a common problem? Explain your logic.

A) direct expenditure offset

B) Ricardian equivalence

3) (16 points) Answer EITHER Part A OR Part B.

A) What is the difference between *gross national debt* and *net national debt*. Which is more likely to cause long-term problems in the economy? Explain your logic.

B) So far this fiscal year (starting October 1st), [government spending was \\$1900 billion, transfer payments were \\$1200 billion, interest was \\$500 billion, and tax revenue was \\$2300 billion](#). Calculate the actual federal deficit and the primary federal deficit. Show all work and briefly state what you did. During that whole time, the [unemployment rate has been between 4.0% and 4.2%](#). Is the full-employment budget deficit larger or smaller than you calculated? Explain your logic. (All budget numbers were rounded to the nearest \$100 billion.)

4) (18 points) Answer EITHER Part A OR Part B.

A) Use MS/MD diagram to explain why the Fed cannot control both interest rates and the money supply.

B) Draw the MS/MD diagram. Show one of the key steps of crowding out on the graph. Explain why the curve(s) moved as drawn and explain what crowding out is.

5) (20 points) Answer EITHER Part A OR part B.

A) Draw the LRAS/SRAS/AD diagram for an economy in an inflationary gap. State how you know it is in an inflationary gap. What is the best fiscal policy? Illustrate that on the diagram. Explain why the curve(s) moved as drawn. What happens to GDP, inflation, and the unemployment rate?

B) Draw the LRAS/SRAS/AD diagram for an economy in a recessionary gap. State how you know it is in a recessionary gap. What is the best monetary policy? Illustrate that on the diagram. Explain why the curve(s) moved as drawn. What happens to GDP, inflation, and the unemployment rate?

6) (20 points) Answer EITHER Part A OR Part B.

A) According to [this webpage](#), oil prices have dropped over the past six months. Illustrate the effects of that on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What happens to GDP, inflation, and the unemployment rate?

B) Draw an LRAS/SRAS/AD diagram. Illustrate the effects of an increase in the capital stock. Explain why the curve(s) moved as drawn. What happens to GDP, inflation, and unemployment?