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. 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) (10 points) Answer EITHER Part A OR Part B.
A) Use terminology from this class to explain why poor people who live on farms in poor countries, often do not send their children to school.
B) Use terminology from this class to explain why last May, just before final exams, I did not go to see three great bands in a single concert in Brooklyn, NY. (Living Colour, Fishbone, & Bad Brains)

2) (12 points) Answer EITHER Part A OR Part B.
A) The Department of Education is cutting funding to poor public schools and rural public schools. What will that do to the long-run growth of the economy? Explain your logic.
B) President Trump says the import tariffs will help the long-run growth of the economy. Is he correct? Explain your logic.

3) (12 points) Answer EITHER Part A OR Part B.
A) All statistics have problems which prevent them from being as useful as we would like. What are two problems with the definition of unemployment? Explain why those are problems.
B) Explain the difference between *frictional unemployment* and *structural unemployment*.

4) (14 Points) Answer EITHER Part A OR Part B.
A) *Adverse Selection* is one reason we use financial intermediaries. What does that mean and explain how using a financial intermediary reduces the problem.
B) Lags are one reason that some economists feel we should not use counter-cyclical monetary policy. What are they and why do their existence mean we might not want to do counter-cyclical monetary policy?

5) (16 points) Answer EITHER Part A OR Part B.
A) Draw a S/D diagram for fire trucks . Illustrate the effects of the price of ambulances going down. Explain why the curve(s) moved as drawn. What happens to the price and quantity of fire trucks sold?
B) Draw a S/D diagram for t-shirts. Illustrate the effects of the price of cotton going down. Explain why the curve(s) moved as drawn. What happens to the price and quantity sold?

6) (18 points) Answer EITHER Part A OR Part B.
A) Suppose the government puts a quota on the number of hats which can be made. Draw a S/D diagram which shows that. Explain why the graph looks as drawn. Are producers helped or hurt? Explain your logic.
B) Draw a PPF for paper plates and note pads. Find a point where you think the opportunity costs of a paper plate is 2 pads. Explain how you chose that point.

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

A) Why is the Social Security Trust Fund projected to run out of money by about 2035? Briefly explain the two long-term trends which have been causing it to shrink. Some people propose solving the problem by "means testing benefits". How would that reduce the problem? Explain your logic. Would you use that as part of a package to save Social Security? Why or why not?
B) Suppose a building costs $1000 to rent. You can use it to make 300 shirts which cost $20/shirt to make and sell for $30/shirt. There is a negative externality which affects 400 people. It costs each of those 400 people $2 each. Should it be done? Will the market do it? Would the government do it? Show all calculations and briefly explain each part.