

## ECO 150, Fall 2022, Exam #2

**Name:**

**Instructions:**

1. This exam consists of thirteen questions and a bonus. The bonus is harder than the other question but keep in mind that points on the bonus count the same as for any other question. You are encouraged to use the models from class when formulating your answers.
2. Some questions are open ended. You will be graded more on the quality of your explanation than your specific answers. On “true/false” questions, for example, answering only “true” or “false” will receive no credit, even if correct.
3. Do not just copy from the course materials. Doing so will receive no credit.
4. This is an open note exam. You may use any printed course materials. You may not use any electronic devices, you do not need a calculator.
5. All questions will be graded out of ten points. To maximize the potential for partial credit, craft clear and concise responses. If you making assumptions, state them clearly. Use graphs as appropriate.

1. True or False. Any event that increases Gross Domestic Product must also increase social welfare.

2. Explain how might a Central Bank ameliorate (lessen the impact of) or prevent a financial (liquidity) crisis?

3. What are the advantages and disadvantages of public pension programs like Social Security?

4. Provide two potential solutions for the financial problems of Social Security and Medicare.

5. What do you think is the most significant cause of declining U.S. labor productivity since March 2020 and how has this affected output and inflation?

For questions #6-8 consider the following data .

Table 1: Economic Data for 2021-2022

Good or Service	Q(2021)	P(2021)	Q(2022)	P(2022)
Construction Equipment	10	3	11	4
Imported Mink Socks	3	2	5	6
Home Cooked Meals	2	NA	3	NA
Restaurant Meals	3	8	4	7
Pasta	1	4	1	8

6. You do not have enough information to determine if pasta should be counted in GDP. Provide one scenario where it should be included and one where it should not.

7. Calculate GDP, consumption, and investment for 2021.

8. Using 2021 as the base year, calculate real GDP growth.

9. True or False? Policy makers seek to eliminate both structural and cyclical unemployment because they are involuntary and costly to households.

Table 2: Labor Market data for 2022

Type	#
Discouraged Workers	20
Unemployed, Actively Seeking Work	15
Full Time workers	100
Underemployed for Economic Reasons	10
Part Time Workers, by Choice	8

10. Calculate the U-3 and U-6 unemployment rates.



11. Suppose that 10 full-time workers drop out of the labor force. What will happen to unemployment and would economists consider this a sign of a weaker labor market?

12. Recall that the AS/AD model assumes “sticky wages.” Suppose that the Fed raises interest rates. Show how this will impact output, inflation, and the labor market. You may consider including graphs of AS/AD and the labor market.

13. After covid-19, the government cut taxes, increased spending, and lowered interest rates. True or False? This policy mix will increase output but leave inflation unchanged.

Bonus. There is currently concern that ongoing Fed interest rate hikes will lead to a significant drop in output (possibly entailing a recession) in 2023. Is there a set of policies that might prevent such a scenario? In crafting your answer, make sure to discuss both aggregate supply and aggregate demand.