ECO 156, Fall 2025, Practice Exam #2

Note: Write you name on the last page, not here.

Instructions:

1. This exam consists of twelve questions and a bonus. 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, including the bonus. 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. Why do sovereign debt crises amplify economic recessions? What is more concerning, high levels of total public debt or high levels of debt held by the public?

For questions #3-5 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

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

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

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

6. Describe two factors that led to much higher inflation in 2022.

7. Why is the aggregate supply curve upward sloping in the AS/AD model developed in class?

8. Recall that the AS/AD model assumes "sticky wages." Suppose that Congress raises taxes. Show how this will impact output, inflation, and the labor market. You may consider including graphs of AS/AD and the labor market.

9. Suppose that exports increase while nominal wages fall. Using the AS/AD model from class, show the impact on output and inflation.

10. Why are Treasury bonds not counted as money?

11. Why has the Federal Reserve started holding trillions of dollars in longer-term bonds?

12. Using the AS/AD model from class, explain how the bursting of the housing bubble around 2007 led into the Great Recession.

Bonus. How would your anwser to #8 change is we assumed that nominal wages are never sticky?

Name: