ECO 156, Fall 2025, 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. Suggest a policy that would lower current U.S. unemployment, but still be bad policy. Explain why.

2. Suppose that the U.S. enacted a large income tax increase without changing government spending. Describe the advantages and disadvantages of such a policy. Make sure to discuss the long-term consequences in your answer.

For questions #3-5 consider the following data .

Table 1: Economic Data for 2024-2025

Good or Service	Q(2024)	P(2024)	Q(2024)	P(2025)
New Housing	4	3	2	1
Movies	5	8	3	4
Illegal Cocaine	3	6	4	5
Private school tuition	3	8	4	7
Film used to make movies	3	1	2	5

3. Which goods and services are counted in GDP? For each of them, state whether they are included in consumption, investment, or government spending. Assume that none of them are imported or exported.

4. Calculate real GDP growth in 2025. Clearly state which base year you are using.

5. Calculate inflation in 2025. Use the GDP deflator (all items counted in GDP) as your price index and 2024 as the base year.

6. Describe two factors that led to much higher inflation in the 1970s.

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

8. 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.

9. Suppose that asset prices increase while workers' productivity declines. Using the AS/AD model from class, show the impact on output and inflation.

10. Discuss whether cryptocurrencies should be counted as money.

11. Suppose that the Fed promises to keep interest rates low for a very long time. How could that affect the economy?

12. Using the AS/AD model from class, explain how the covid-19 pandemic led to higher unemployment in 2020.

Bonus. For the policy change in #8 explain and show how the economy returns the long-run equilibrium (where LRAS and AD intersect).

Name: