Part 1 instructions:

\* Describe economic terms and concepts in question.

\* Describe your reasoning leading from concepts in question to the final answer.

\*Write full sentences and use double spacing between paragraphs.

\* Place copied sentences in quotation marks and list source materials used to arrive at your answers.

\* Edit your work for sentence structure, spelling and appropriate formatting of paragraphs.

Your work should consist of at least 3 separate sections of text:

 1) description of economic terms and concepts,

 2) your reasoning and

3) concluding paragraph which states the final  answer.

Part 1 problem 1:

Refer to the table below. Suppose that aggregate demand increases such that the amount of real output demanded rises by $7 billion at each price level. By what percentage will the price level increase? Will this inflation be demand-pull inflation or will it be cost-push inflation? If potential real GDP (that is, full-employment GDP) is $510 billion, what will be the size of the positive GDP gap after the change in aggregate demand? If government wants to use fiscal policy to counter the resulting inflation without changing tax rates, would it increase government spending or decrease it?

|  |  |  |
| --- | --- | --- |
| Real Output Demanded (billions) | Price Level (Index Number) | Real Output Supplied (billions) |
| $506 | 108 | $513 |
| 508 | 104 | 512 |
| 510 | 100 | 510 |
| 512 | 96 | 507 |
| 514 | 92 | 502 |

Part 1 problem 2:

Assume that the following data characterize the hypothetical economy of Trance: money supply = $200 billion; quantity of money demanded for transactions = $150 billion; quantity of money demanded as an asset = $10 billion at 12 percent interest, increasing by $10 billion for each 2- percentage-point fall in the interest rate.

1. What is the equilibrium interest rate in Trance?
2. At the equilibrium interest rate, what are the quantity of money supplied, the total quantity of money demanded, the amount of money demanded for transactions, and the amount of money demanded as an asset in Trance?

Part 2 problem 1:

Discuss an example of your economic decision which was influenced by the economic variables of government spending.

Your work should identify the following:

1. The main objective of your decision,
2. Economic variable from chapter 13 (for example, personal tax or government spending) that influenced your decision,
3. Your reasoning.

For the final exam, students will need to know many cause-and-effect economic relationships. This exercise will provide the opportunity to identify economic relationships in real-world situations.

Edit your work for sentence structure, spelling and appropriate formatting of paragraphs.

Part 2 problem 2:

Discuss an example of your economic decision which was influenced the economic variables of interest rate.

Your work should identify the following:

1. The main objective of your decision,
2. Economic variable from chapter 13 (for example, personal tax or government spending) that influenced your decision,
3. Your reasoning.

For the final exam, students will need to know many cause-and-effect economic relationships. This exercise will provide the opportunity to identify economic relationships in real-world situations.

Edit your work for sentence structure, spelling and appropriate formatting of paragraphs.