Dr. Barry Haworth
University of Louisville
Department of Economics
Economics 202

Midterm #2: Old Exam Solutions

1. b
2. c
3. d
4. c
5. a
6. c
7. d
8. a
9. b
10. e
11. b
12. c
13. a
14. b
15. c
16. a
17. c
18. e
19. d
20. d
21. c
22. d
23. a
24. c
25. d
26. c
27. b
28. a
29. c
30. a
31. c
32. a
33. b
34. b
35. d
36. c
37. e
38. b
39. a
40. e

Part 2. Solutions to the Short Answer Questions

Note that no work is provided below, only the answers. On an actual exam, providing just an answer is not enough, you would need to provide work to receive credit. If you have questions about the work involved, then feel free to contact Professor Haworth.

Question 1. Equilibrium GDP is equal to 70,000 and so if Potential GDP is equal to $80,000, then this economy has a recessionary gap.

Question 2. Taxes need to be decreased by 1250 in order to close this output gap.

Question 3. A decrease of 2000 in government spending will lead to a decrease of 10000 in equilibrium GDP.

Question 4. Government borrowing does not necessarily lead to a burden on future taxpayers. If the benefit from borrowing is the interest received by individuals who purchased government bonds and the cost is the amount of any tax increase to pay off that debt (e.g. the amount borrowed and any interest payments), then a burden exists when the cost is greater than the benefit.

In this situation, if domestic citizens buy their government's bonds, then no burden would exist, because the benefit would be equal to the cost. If foreign citizens, however, buy our government bonds, then a burden does exist, because some of the benefit effectively leaks out of the country, whereas we still incur the same cost.

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