

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

1A) (10 points) Is the CPI a Laspeyres index or a Paasche index? How can you tell?

1B) (20 points) Give an example that shows the weakness of using a Laspeyres style index. Explain your example.

2) (10 points) What is the definition of the exchange rate given in the book? Is that the price of the foreign currency or the domestic currency? How can you tell? Hint: how are prices for things like gasoline written.

3) (15 points each) For each of the variables explain whether you feel that variable will generally look like which frame in figures 2.6 on page 36 and 2.7 on page 37? Explain why you feel that.

A bank account earning 10% interest. (Don't you wish you could get that much?)

The marginal knowledge gained from more studying.

4) (30 points) Do question 4, part A on page 59. Explain your work. Hint: page 43 will be of help.