Wilfrid W. Csaplar Jr., Ph.D. Economics 350 Exam #2 2004/10/13

Write your name on the cover of the test booklet and on an otherwise blank page of the Excel file and nowhere else. Enclose this sheet with the booklet. E-mail the Excel file to wcsaplar@bethanywv.edu. Failure to follow these directions will cost you 1 point. The test has 100 points (to be scaled up to 170 points) and is scheduled to take 50 minutes. Therefore, expect to spend 1 minute for every 2 points. For example, a 14-point question should take 7 minutes. Because of the class that follows your class, I cannot give you extra time.

1) (20 Points) Use the data in page "question #1" of the Excel file on the desktop of your computer to calculate the following predictions for the next 20 years. Do ALL FOUR parts. Do NOT plot them.
A) Same level (a.k.a., same value)
B) Same ratio
C) 10 period moving average
D) 3 period weighted moving average

2) (12 points) Do EITHER Part A OR Part B.
A) Explain why the $\Delta Y/Y$ line starts above the origin, and slopes up.
B) Would an improvement in technology move the $\Delta Y/Y$ line or the $\Delta K/K$ line? Explain your logic.

3) (14 points) For EITHER the indicator in Part A OR the indicator in Part B, determine if it is leading, coincident, or lagging. Explain your logic.
A) Stock prices of 500 common stocks
B) Commercial and industrial loans outstanding

4) (14 points) Answer EITHER Part A OR Part B.
A) Suppose that of the 11 leading indicators mentioned in the book, 4 predict a recession in six months, 4 predict a recession in six months and 3 predict no change in six months. What would that indicate to you? Explain your logic.
B) When deciding upon whether a variable makes a good leading indicator, economists look at how consistent the lead time between the signal and the event. Why is this important?

5) (20 points) For ONE of the external shock theories of business cycles other than sunspots, explain the cause of that cycle. Explain the weakness of the theory.

6) (20 Points) Use the data in page "question #6" of the Excel file on the desktop of your computer to calculate the inflation rates for every year, using 2002 as your base year. You can use either the Laspeyres or Paasche index, but tell me which you are using.

Remember to bring your CD-ROMS to class on Friday.