

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) (12 points) Answer EITHER Part A OR Part B.

A) How does markup pricing cause wage and price stickiness?

B) How do menu costs cause wage and price stickiness?

2) (14 points) Answer EITHER Part A OR Part B.

A) Why does it matter if wages and prices are sticky?

B) What do you think is the biggest determinant of whether wages and prices are sticky? Explain your logic.

3) (14 points) For EITHER the Supply Side School, OR the Neo-Keynesian School, determine if George W. Bush is acting in a manner as that school would have approved of. Explain your logic.

4) (20 points) Answer EITHER Part A OR Part B.

A) Illustrate an decrease in government spending of \$20 billion, when it was anticipated to decrease by \$10 billion, on the straight-line version of the LRAS/SRAS/AD diagram. Assume the Neo-classical/Rational Expectations model holds. Explain the logic as to why the curve(s) moved as drawn.

B) Illustrate a negative demand shock on the straight-line version of the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. Assuming the Neo-classical/Rational Expectations model holds, what type of fiscal policy would they prescribe? Explain why they would choose that type of policy.

5) (40 points) Use the data on the [page labeled "5" in the Excel © file](#) to forecast the sales for one more year. If you have problems with any one of the columns and you need that data for the next column, put the formula in for the next column. If it would have been correct when the previous column is correct, then you will get full credit for that column.