Wilf Csaplar Jr.   Economics 350   Homework #7   Due 11/02

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. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. The Excel file will be handed in via Moodle. Your name will only appear on a page of the file that has nothing else on it. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

1) (10 points) Suppose the inflation rate was expected to be 8%, but it turned out to be 3%. Name two groups of people who gain from this and two who lose. Explain you logic.

2) (15 points) Shoe-leather costs and menu costs are both costs of anticipated inflation. Which is the bigger problem when we have 3% inflation? Which is the bigger problem when inflation is 1000%? Explain your logic.

3) (15 points) Suppose we were back in 1981. The inflation rate was 9.3% in the USA. If you were in Volker's shoes, the Chairman of the Federal Reserve at that time, would you have taken the gradual or rapid approach to reducing inflation? Explain your logic.

4) (10 points) Suppose the floating exchange rate was $1.2/ì yesterday and is ì 0.9/$ today. Which currency is appreciating? Show all work and explain your logic. Who in the USA would like this change? Who in the USA would not like this change? Explain your logic.

The questions below refer to the spreadsheet "lab" on the Excel file "Week7.xls"

5) (25 points) Use the data in the columns A - C to run a regression to predict output as a function of time. Check for heteroscedasticity and autocorrelation. If you find one, explain how you know you had that one. If that one is autocorrelation, then run a regression which would adjust for that problem. Explain what you did.

6) (25 points) Use the data in the columns F - H to run a regression to predict GPA as a function of course number. Check for heteroscedasticity and autocorrelation. If you find one, explain how you know you had that one. If that one is autocorrelation, then run a regression which would adjust for that problem. Explain what you did. Fill in column I with the formula for GPA assuming all courses have equal credit hours. Use this to verify that column H is correct.