

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.

All questions except #1 should be done before the laboratory.

1) Use the page on the [Excel Sheet](#) entitled *Lab* to answer this question.

A) (20 points) Calculate the Laspeyres CPI for each year using every year as a base year. In other words, you will have 25 entries – five years with each of the five base years.

B) (10 points) Calculate the inflation for each of the four years which it can be calculated for.

C) (15 points) Compare your results in Part B for the base years of 2003 and 2004. Why do you think they have such different results? Explain your logic.

D) (10 points) Calculate the Paasche price index for each year with 2002 as the base year.

Calculate the inflation rate using this data. (Note the video has year 2000 as the base year for the Paasche price index.)

2) (30 points) Define “Neutrality of Money.” Use the real MS/MD and the IS/LM/FE diagram to prove it.

3) (15 points) The *Real Business Cycle* model concludes that government spending can affect the economy, but the proponents of the theory say that government spending should not be used for counter-cyclical stabilization. Why?