

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 for #1 and #2, should be done before the laboratory.

1) (25 points) Use the data in the sheet Lab on the Excel sheet [lab7.xls](#) to run a regression to predict GDP as a function of government spending. Do the quick checks for heteroscedasticity and autocorrelation. If you find a problem, explain how you know you had that problem. **If that problem is autocorrelation**, then run a regression which would adjust for that problem. Explain what you did. **If the problem is heteroscedasticity**, then do the formal test for it and explain what you did.

2) (25 points) Use the data in the sheet Lab 2 on the Excel sheet [lab7.xls](#) to run a regression to predict GDP as a function of government spending. Do the quick checks for heteroscedasticity and autocorrelation. If you find a problem, explain how you know you had that problem. **If that problem is autocorrelation**, then run a regression which would adjust for that problem. Explain what you did. **If the problem is heteroscedasticity**, then do the formal test for it and explain what you did.

3) (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 your logic.

4) (20 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.

5) (20 points) Suppose that yesterday the exchange rate was £0.5/\$ and today it is \$1.9/£. Did the dollar appreciate or depreciate? Show your work. Who in the USA would like this and who would not? Briefly explain your logic.