

Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet. 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. 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 10-point question should take 5 minutes. I cannot give extra time because of the class which follows yours.

1) Answer ALL THREE parts on the [Excel file](#).

A) (8 points) Use the data on the Excel page called "Inflation" to calculate the **Laspeyres Price Index** for every year using **2004** as the base year.

B) (5 points) Use your answer to Part A to calculate the inflation rate in each year.

C) (8 points) Use the data on the Excel page called "Inflation" to calculate the **Paasche Price Index** for every year using **2004** as the base year.

2) (12 points) Answer EITHER Part A OR Part B.

A) Which method of forecasting studied so far do you think is the best for predicting interest rates? Explain your logic.

B) Draw the diagram of effort as a function of wages. Explain how you find the best wage.

3) (15 points) The data on the page of the [Excel file](#) called "Tigers" has the Detroit Tigers' actual winning margins for the end of the season and the post season so far. Use that data to predict the Tigers' margin of victory for the rest of the playoffs using the *same value, same change, same percent change (same ratio), 9-period moving average, AND 3-period weighted moving average*. Do ALL five predictions for the remaining games, assuming they play all of those games.

4) (16 points) Both the *Real Business Cycle* model and the *Keynesian* model of the business cycle make accurate predictions except for one variable. For EITHER *Real Business Cycle* model or the *Keynesian* model, state the variable which they do not accurately predict the behavior of. Explain how their model reaches that conclusion. Also explain how the believers of that model explain the inaccurate predictions.

5) (16 points) What do you feel is the most logical explanation of either wage OR price rigidity? Explain that explanation.

6) (20 points) Answer EITHER Part A OR Part B.

A) Draw an IS/LM/FE diagram with an unemployment rate of 8%. Suppose that people expect the money supply to increase 5%, but it only increases 3%. Draw the diagram and explain why the curve(s) moved as drawn. What happens to GDP and inflation? Make sure you are using the *Misperceptions Theory*.

B) Draw an IS/LM/FE diagram for the *Real Business Cycle* model which starts at full employment. Illustrate how they explain the business cycle. Explain why the curve(s) move as drawn and determine if interest rates are pro-cyclical or counter-cyclical.