

Do not put your name anywhere on the assignment, other than on the back of this sheet of paper. Staple your answers on the front of this sheet of paper. Hand the Excel file in via Moodle. Your name should appear only on a blank sheet of the file. Failure to follow these directions will cost you 1 point. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it will cost you 10 points. If you do double-sided printing or print on the back of scrap paper, I will give you one additional point.

Question #2 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.)

2A) (30 points) Use the IS/LM/FE diagram and the SRAS/LRAS/AD diagram to illustrate a positive demand shock. Explain why the curves moved as drawn.

B) (5 points) What happens to interest rates, price level, and MPN? Explain the economic reason for those changes.

C) (10 points) For one of those variables in Part B, the variable behaves the opposite of what the theory predicts. How do the theorists explain this apparent contradiction?