

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.

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) Why isn't fully anticipated inflation a major problem? Explain your logic.
- 4) (15 points) Suppose that we have high inflation. If an economist recommends a rapid "cold-turkey" approach to fighting it, then what are they proposing? Which type of economist is that? Explain your logic.
- 5) (10 points) Suppose that yesterday the exchange rate was £0.5/\$ and today it changed by itself to \$1.9/£. Did the dollar appreciate, depreciate, revalue, or devalue? Show your work. Who in the USA would like this and who would not? Briefly explain your logic.
- 6) (15 points) Use the supply and demand for \$ versus £ to illustrate an increase in our GDP. Explain why the curve(s) moved as drawn.