

The Last One!

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 #1, should be done before the laboratory.

Question #1 refers to the completion of the file created last week for [Homework #8](#).

1) (40 points) Run a regression to estimate the GDP as a function of time. Use the results to create a column which is called trend. Use that column and the columns created in lab #8, to create the column "normal." Now use this information to predict GDP up through the third quarter of 2005.

2) (15 points) Explain how the discount rate is supposed to affect the money supply.

3) (35 points) Use the real money supply/real money demand diagram **and** the supply and demand diagram for dollars on the foreign exchange market to show why the Fed can only control the money supply or interest rates or the exchange rate, but not any pair of them.

4) (10 points) What are the advantages of using *rules* rather than *discretion* when enacting monetary policy?