

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. You can have the full two hours.

Do ALL parts of Questions #1 and #2.

- 1) Question #1 requires using the spreadsheet labeled "CPI" in the Excel file.
  - A) (6 points) Calculate the Laspeyre's style price index for all years using 2005 as your base year.
  - B) (6 points) Calculate the inflation rate for all of the years you can, using the data from Part A.
  - C) (6 points) Calculate the Paasche style price index for all years using 2005 as your base year.
  - D) (6 points) As we showed in the lab, the choice of base year is very important. One of the years would make a very bad choice. Which year is it and why would it make a bad choice?
  
- 2A) (12 points) Use the spreadsheet labeled "FORECAST" in the Excel file to do the five forecasts asked for.
  - B) (6 points) For EITHER your GPA OR the stock market, which method of forecasting would be best for forecasting it? Explain your logic.
  
- 3) (10 points) Answer EITHER Part A OR Part B.
  - A) We stated that many firms keep their prices fixed and let their inventories fluctuate. Why might they do that and what does that mean for the rigidity or lack of rigidity of prices?
  - B) We stated that firms use fixed price markups. Why might they do that and what does that mean for the rigidity or lack of rigidity of prices?
  
- 4) (18 points) Answer EITHER Part A OR Part B.
  - A) Use the labor supply and demand diagram to explain why wage rigidity may prevent the economy from getting back to equilibrium.
  - B) Draw the diagram for the efficiency wage. Explain how it can cause wage rigidity even in a macroeconomic setting.
  
- 5) (30 points) Answer EITHER Part A OR Part B.
  - A) Use the Neo-Classical School's version of the IS/LM/FE and SRAS/LRAS/AD diagrams to explain why that school believes that monetary policy should not be used to stabilize the economy.
  - B) Use the Neo-Classical School's version of the IS/LM/FE and SRAS/LRAS/AD diagrams to explain what that school believes to be the cause of the business cycle. In this model are prices, interest rates, and productivity of labor pro-cyclical, counter-cyclical, or acyclical? Which variable moves the wrong way? How do they explain the apparent contradiction?