

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 (but you can take the full 2 hours.) Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5 minutes.

Do ALL parts of Questions #1 and #2. Format all numbers and percentages to two decimals.

1A) (12 points) Use the spreadsheet labeled "FORECAST" in the Excel file to do the *same value, same change, same percent change, 8-period moving average, and 3-period weighted moving average*. Do NOT plot them.

B) (6 points) For EITHER Big Ben's completions in a game OR the stock market, which method of forecasting would be best for forecasting it? Explain your logic.

2) Question #2 requires using the spreadsheet labeled "CPI" in the Excel file.

A) (6 points) Calculate the Laspeyre's style price index for all years using 2002 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 2002 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?

3) (12 points) For EITHER the *Neoclassical/Real Business Cycle's* model of the business cycle OR the *Neo-Keynesian* model of the business cycle. State which variable that model predicts differently from what the data shows. Explain how believers in that theory explain away the error.

5) (12 points) Answer EITHER Part A OR Part B.

A) The *Neoclassical School* is also called *Rational Expectations*. How does it get that name? Do you believe the key assumption which gives it that name? Explain your logic.

B) When does the *Neoclassical School* believe in non-neutrality of money? Explain your logic without a graph.

4) (16 points) Answer EITHER Part A OR Part B.

A) Draw the effort/wage diagram to explain the *efficiency wage*. How does that theory explain whether or not there is wage rigidity?

B) Draw the real MS/MD diagram which has a *liquidity trap*. Explain why it looks as you drew and the implications for monetary policy.

6) (18 points) Answer EITHER Part A OR Part B.

A) Illustrate a 20% increase in the money supply on the SRAS/LRAS/AD diagram in the *Neoclassical School*. Assume the people expected an 8% increase in the money supply. Explain why the curve(s) moved as drawn. What happens to the price level and GDP?

B) The economic conditions determine which economic model is more accurate at a given point in time. Is the *Neoclassical* or the *Neo-Keynesian* model more accurate now? Explain your logic by citing two pieces of evidence like assumptions or observations.