

The Last One!

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point. Turn in the Excel file via Moodle. 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 use 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.

This first question refers to the spreadsheet "Lab" on the Excel file from last week.

1) (40 points) Run a regression to estimate the Sales 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 Sales up through the third quarter of 2011.

2) (15 points each) For each of these events, explain what happens to the monetary base, the money multiplier, and the money supply. Explain your logic.

A) The central bank purchases bonds on the open market.

B) The currency-deposit ratio increases.

3) (20 points) Explain why the central bank cannot target both interest rates and the money supply, using the real money supply/demand diagram.

4) (10 points) Do you think the Fed should be using a rule or discretion now? Explain your logic.