

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.

1) Question #1 requires using the spreadsheet labeled “CPI” in the [Excel file](#). Format all numbers and percentages to two decimals.

A) (6 points) Calculate the Laspeyre’s style price index for all years using 2003 and 2004 as your base years.

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) What explains how different the inflation rates in Part B were?

2A) (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. Format all numbers as integers.

B) (6 points) For EITHER a person’s retirement account balance OR the CPI, which method of forecasting would be best for forecasting it? Explain your logic.

3) (10 points) Answer EITHER Part A OR Part B.

A) Explain why the *Rational Expectations School*, a.k.a. *Neo-Classical School* feels that people respond quickly to changes in the economy and why that assumption does not require that everybody be able to understand this course.

B) Explain why the *Rational Expectations School*, a.k.a. *Neo-Classical School* feels that expansionary monetary policy is not advisable.

4) (12 points) For EITHER the *Neo-classical* (real business cycle) model OR the *Neo-Keynesian* model, their explanation of the business cycle predicts one variable wrong. What is that variable? How do they explain the fact the data does not appear to support their theory?

5) (18 points) Answer EITHER Part A OR Part B.

A) Explain the *efficiency wage* explanation of wage rigidity using a graph. Why might it not apply in Macroeconomics?

B) Use the real MS/MD diagram to explain why *Neo-Keynesians* feel expansionary monetary policy may not work.

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

A) Use the *Rational Expectations School*, a.k.a. *mis-perceptions theory*, model of the SRAS/LRAS/AD diagram to show an increase of government spending of \$100 billion, but people expected the government spending to increase \$300 billion. Explain why the curve(s) moved as drawn. What happens to GDP, and inflation?

B) Use the NS/ND diagram to explain how the *Rational Expectations School*, a.k.a. *Neo-Classical School* explains the real wage over the business cycle. Explain why the curve(s) moved as drawn and why the real wage changes as it does.