

Write your name on the cover of the test booklet and on an otherwise blank page of the Excel file and nowhere else. Enclose this sheet with the booklet. **Send me the Excel file to e-mail attachment.** 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 14-point question should take 7 minutes; however, you can take 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](#). The file is loaded in the computer already. Send it to me via e-mail. 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) (14 points) Answer EITHER Part A OR Part B.

- A) Use the *Mis-perceptions Theory* to explain  $Y = Y_{FE} + b(P - P^e)$ . What does that mean about the SRAS curve’s shape and movements? Explain your logic.
- B) Which explanation of rigid wages do you feel is the most accurate? Explain that theory of rigid wages.

4) (22 points) Answer EITHER Part A OR Part B.

- A) Illustrate the short-run effects of a negative productivity shock on the LRAS/SRAS/AD diagram for the Keynesian Model. Explain why the curve(s) moved as drawn. Is the economy in the long-run equilibrium after the short-run changes? Explain your logic.
- B) Use the IS/LM/FE diagram for a Keynesian liquidity trap to explain what Keynesian economists feel should happen to correct high unemployment.

5) (22 points) Answer EITHER Part A OR Part B.

- A) Illustrate the short-run effects of an increase in the money supply of 5% coupled with an expected increase of the money supply of 10% on the LRAS/SRAS/AD diagram for the Neo-Classical Model. Explain why the curve(s) moved as drawn. Is the economy in the long-run equilibrium after the short-run changes? Explain your logic.
- B) Use the IS/LM/FE diagram for the Neo-Classical Model to explain the neutrality of money.