

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.

1) (10 points) Answer EITHER Part A OR Part B.

A) What are the problems caused by lower than expected inflation? I.e., who is hurt by it and why are they hurt?

B) If the nominal exchange rate is $\text{£}0.6/\text{\$}$, the price level in Great Britain is $\text{£}200/Q_{\text{GB}}$, and the price level in the USA is $\text{\$}300/Q_{\text{US}}$, then what is the real exchange rate? Show all work.

2) (16 points) Answer EITHER Part A OR Part B.

A) Draw the Augmented Phillips Curve diagram. Start with an unemployment rate of 5% and an expected inflation rate was 4%. Illustrate an increase in the money supply of 6% while the expected increase is now 3%. Explain why the curve(s) moved as drawn. Show the new and old points both of the graph. Explain how you found them.

B) What can the government do to move the LRPC? Explain why that would move the LRPC.

3) (16 points) Illustrate EITHER the event in Part A OR the event in Part B on the supply and demand for dollars with the yen (¥) as the other currency. Explain why the curve(s) moved as drawn. Which currency appreciates?

A) The Japanese economy enters a recession.

B) The Japanese inflation rate decreases.

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

A) Use the supply and demand for a currency to explain why controlling the exchange rate causes you to lose control of the money supply.

B) The USA a floating exchange rate versus most currencies. Does this make expansionary fiscal policy more effective than with a closed economy or less effective? Explain your logic. Make sure you tell me what happens to the exchange rate when the government spends more.

5) (18 points) Use the tab "Debt" in the [Excel file](#) to predict debt as a function of income. Do the quick tests for BOTH heteroscedasticity AND autocorrelation. Briefly explain how you did both tests. **If you find only heteroscedasticity or you find both**, then do the formal test using 1.61 as the cutoff and explain your results. (Of interest, the data we used for lab #7 should have had 1.79 as the cutoff.) **If you find only auto-correlation**, then do the correction for it which I taught you. Explain what you did and explain why you did it. **If you neither**, then tell me how good the overall results are and which variable(s) is (are) significant. Explain how you reached that conclusion.

6) (24 points) Use the tab "Glasses" in the [Excel file](#) to predict the sales of glasses based upon the price of glasses, the price of contacts, and income. If your income was \$2000, the price of glasses was \$150/pair and the price of contacts was \$130/pair, then how many would you expect to sell? Show all work and briefly explain what you did. Test for multi-colinearity and briefly explain how you tested for it. **If you find multi-colinearity**, then explain how you would correct it without actually doing it. **If you do NOT find multi-colinearity**, tell me how good the overall results are and which variable(s) is (are) significant. Explain how you reached that conclusion.