

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) If the US\$ depreciates, who in the USA will like it? Who will dislike it? Explain your logic.

B) If the exchange rate is A\$1.50/US\$ and the Australian government changes it to US\$0.8/A\$. Which currency appreciated? How can you tell? Show all work and explain your logic.

2) (10 points) Answer EITHER Part A OR Part B.

A) Who is hurt by lower than expected inflation? Explain how they are hurt. List at least two groups of people.

B) What are the costs of high unemployment? Explain your logic. Mention at least two costs and explain how high unemployment causes them.

3) (14 points) Answer EITHER Part A OR Part B.

A) Draw the supply and demand for the US\$ with the Norwegian kroner (Nkr) as the other currency. Suppose the Federal Reserve has a fixed exchange rate below the equilibrium exchange rate. Draw that. Will the Fed have to sell or buy US\$? Explain your logic and illustrate the effect on the graph.

B) Draw the supply and demand for the US\$ with the Egyptian pound (LE) as the other currency. Illustrate the effects of Egypt's economy going down because of the protests this year. Explain why the curve(s) moved as drawn. Which currency appreciated? How can you tell?

4) (14 points) Answer EITHER Part A OR Part B.

A) The Chinese economy is growing at about 7%. Illustrate the effects of that growth on the IS/LM/FE diagram for the USA. Explain why the curve(s) moved as drawn. What happens to the GDP and interest rates in the USA?

B) The Chinese economy has an inflation rate about 6%. Illustrate the effects of the price level increase on the IS/LM/FE diagram for the USA. Explain why the curve(s) moved as drawn. What happens to the GDP and interest rates in the USA?

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

A) Draw the LRPC/SRPC diagram for the USA when the unemployment rate is 8% and the expected inflation was 3%. Explain how you found where the lines are and the point representing the current economic situation. Illustrate the effects of an increase in the money supply of 5% and people changing their expected inflation to 5%. Explain why the curve(s) moved as drawn and how you found the new situation in the economy.

B) Draw the LRPC/SRPC diagram for the USA with an unemployment rate of 5% and an expected inflation of 3%. Explain how you found where the lines are and the point representing the current economic situation. Suppose the government starts a new program to retrain the unemployed. Illustrate the effects of that on the diagram. Explain why the curve(s) moved as drawn and how you found the new situation in the economy.

6) (18 points) Use the tab "investment" in the [Excel file](#) to predict investment as a function of GDP and interest rates. Do the quick tests for BOTH heteroscedasticity AND autocorrelation. Briefly explain how you did both tests. **If you find only heteroscedasticity**, then do the formal test using 1.41 as the cutoff and explain your results. **If you find only auto-correlation or you find both**, then do one of the corrections for auto-correlation 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.

7) (16 points) Use the tab "shovels" in the [Excel file](#) to predict the sales of shovels based upon the price of gloves, the price of shovels, and income. Test for multi-collinearity and briefly explain how you tested for it and the results. **If you find multi-collinearity**, then explain how you would correct it without actually doing it. **If you do NOT find multi-collinearity**, then tell me how many shovels you would expect to sell if your customers' average income was \$48,000, the price of gloves was \$30/pair and the price of shovels was \$29/shovel. Show all work and briefly explain what you did.