Wilf Csaplar Jr. Economics 350 Homework #4 Due 9/27

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 with your name on an otherwise blank sheet. 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.

1) Use the page on the Excel Sheet entitled *Lab* to answer this question.
A) (15 points) Calculate the Laspeyres CPI for each year using every year as a base year. In other words, you will have 36 entries – six years (2007 - 2012) with each of the six base years.
B) (5 points) Calculate the inflation for each of the five years which it can be calculated for.
C) (10 points) Compare your results in Part B for the base years of 2007 and 2008. Why do you think they have such different results? Explain your logic in a box typed in on the Excel file.
D) (10 points) Calculate the Paasche price index for each year with 2008 as the base year. Calculate the inflation rate using this data.
E) (10 points) Assuming that 2006 had a chained value of 90, what is the PCE for every year? Calculate the inflation rate for the those years which you can calculate it for.

2) (30 points) Use the IS/LM/FE diagram and the SRAS/LRAS/AD diagram to illustrate an increase in government spending in the Real Business Cycle, a.k.a. Neo-Classical School. Explain why the curves moved as drawn. What happens to interest rates, inflation, and real GDP? Explain the economic reason for those changes.

3) (20 points) Use the IS/LM/FE diagram to explain the theory of neutrality of money.