Wilf Csaplar Jr.   Economics 350   Homework #7 (Lab 6)   **Due 10/25**

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.

All questions, except for #1 and #2, should be done before the laboratory.

1) (25 points) Run the regression using the data in the Lab #1 of the Excel file lab6.xlsx. Remember the proper way to use the time to predict the quantity. Would you be willing to rely on this information to estimate the quantity over time? Why or why not?

2) (25 points) Use the data in Lab #2 to forecast quantity as a function of year, price, and income. Check for multi-collinearity of the independent variables. Is it acceptable to leave all three variables in? Why or why not? **If it is not acceptable**, re-run the regression without one variable and tell me why you left that variable out. **If it is acceptable**, then tell me how much you would expect to sell to a person with an income of $50,000 if you charged $10/unit in 1960.

3) (10 points) President Nixon attempted to use wage and price controls to fight inflation. What is wrong with that?

4) (15 points) Give the hysteresis theory of the natural rate of unemployment, including an explanation as to how it works.

5) (15 points) Under what conditions would you want to implement a rapid attack (cold turkey) on inflation rather a gradual decrease in inflation? Explain your logic mentioning at least two qualities of the economy and/or you.

6) (10 points) How would TIP (tax-based income policies) help to lower inflation? How could it raise the inflation rate?