

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) (6 points each) This question refers to the [Excel © file's](#) page called "CPI." Do ALL three parts.

- A) Find the CPI and inflation rate using the Laspeyres Price Index with 2008 as a base year.
- B) Find the CPI and inflation rate using the Paasche Price Index with 2008 as a base year.
- C) Find the PCE Index for each year. using 2008 as the base year, but do not worry about the chained value, then find the values for the inflation rates each year.
- D) Why do you think the inflation rates from 2008 to 2009 and from 2009 to 2010 were so extreme? Explain your logic.

2) (12 points) Use the page on the [Excel © file](#) called "Grades" to answer this question. Use the data to do the following forecasts: Same Value, Same Change, Same Percentage Change, Five Period Moving Average, and Three Period Weighted Moving Average to predict this person's grades through the rest of the course.

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

- A) Some critics of the Neo-Classical School, a.k.a., Rational Expectations School, is that it appears to require that everybody understand economics when making decisions. What is wrong with this argument?
- B) Explain why the Neo-Classical SRAS curve slopes up rather steeply.

4) (16 points) Draw an IS/LM/FE diagram with high unemployment. Use it to explain EITHER why the Neo-classical School says to not use counter-cyclical monetary policy OR why some in the Neo-Keynesian School says to not use counter-cyclical monetary policy.

5) (16 points) Answer EITHER Part A OR Part B.

- A) Draw the efficiency wage (effort curve) diagram. Use it to explain why firms may pay too high a wage.
- B) Explain the difference between *nominal wage rigidity* and *real wage rigidity*. Which is more likely to cause high unemployment? (Hint: when might one change and the other not change? How does that affect the unemployment rate.)

6) (18 points) Both the Neo-classical School and the Neo-Keynesian School predict a variable wrong. For **ONE** of those schools tell me which statistic about the business cycle they predict wrong (pro-cyclical when it is really counter-cyclical or vice versa). Use a graph to explain what their model predicts for that variable. Explain how they explain why the data contradicts the theory.