

The Last One!

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.

This question refers to the spreadsheet “Lab” on the Excel file which you used last week.

1) (40 points) Run a regression to estimate the Sales as a function of Time. Use the results to create a column which is called trend. Use that column and the columns created in Lab #8, to create the column “normal.” Now use this information to predict Sales up through the fourth quarter of 2015.

2) (20 points each) Use both the equation for the money multiplier and economic theory to figure out what happens to the monetary base, money multiplier, and the money supply. Explain your logic.

A) The Fed buys \$5000 worth of bonds.

B) People decide to keep more money in their pockets.

3) (20 points) Use the real MS/MD diagram to prove that if the central bank targets interest rates, then it cannot target the money supply too.