

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) (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) (20 points) Draw the Long-run Phillips Curve and the Augmented Short-run Phillips Curve for people expecting 5% inflation. Illustrate an increase in the money supply of 4% at the same time, people start expecting inflation to be 3%. Explain why the curve(s) moved as drawn.
- 4) (20 points) Draw the Long-run Phillips Curve and the Augmented Short-run Phillips Curve for people expecting 5% inflation. I believe it was in the early 1990s, Wisconsin changed their Welfare office, unemployment office, and job training office so that they all one office. That way, when a company needed to hire people they could go to the office and when a person went to get their Welfare benefits or unemployment benefits, the office could tell them about certain jobs and give them training for those jobs. How do you think this affected the diagram? Explain why the curve(s) moved as drawn.
- 5) (10 points) Neo-Classical economists feel that the SRPC diagram is useless for economic policies. For example, they feel that the government cannot use either fiscal or monetary policy to move along the curve to a better point. Why do they feel that?