Wilfrid W. Csaplar Jr., Ph.D.   Economics 350   Exam #2   2014/10/8

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) Answer ALL parts on the tab "Price" Excel © file exam2.xlsx .
A) Calculate the Laspeyres price index for all years, with 2010 as the base year. Calculate the inflation
rate for every year possible.
B) Calculate the Paasche price index for all years, with 2010 as the base year. Calculate the inflation rate
for every year possible.
C) Calculate the PCE index for all years, with 2010 as the base year. Calculate the inflation rate for
every year possible.

2) (12 points) Use the tab "Simple" on the Excel © file exam2.xlsx to forecast the low temperature for
the next 14 days using the *same value, same change, same percent change, 7 day moving average,* and *7
day weighted moving average.* (These are the actual low temperatures for Bethany on these dates.)

3) (10 points) Answer EITHER Part A OR Part B.
A) Suppose you were to choose a base year in Question #1. What year would be a bad year to choose
OR what year would be a good year to choose? Explain your logic.
B) Which method of forecasting used in Question #2 would you use to forecast prices? Explain your
logic.

4) (12 points) Answer EITHER Part A OR Part B.
A) Why might a firm face a *kinked demand curve*? Why might that cause price rigidity?
B) Without using a graph, explain why the Neo-Classical Model concludes that neutrality of money
holds. How do they explain the pro-cyclicality of the money supply?

5) (12 points) Answer EITHER Part A OR Part B.
A) Explain how *labor hoarding* could cause the Solow Residual to be inaccurate. You do **not** need to
write the equation, but you can.
B) Explain the difference between a *real shock* and a *nominal shock*?

6) (16 points) Answer EITHER Part A OR Part B.
A) Draw the *effort curve* and use it to explain the efficiency wage argument for *real wage rigidity*.
B) Give two reasons why we might have *real wage rigidity* other than the *efficiency wage*. Explain how
both cause wage rigidity.

7) (20 points) Answer EITHER Part A OR Part B.
A) Draw the LRAS/SRAS/AD diagram for the Neo-Classical Model. Illustrate the effects of a 2%
increase in the money supply at a time when people were expecting a 5% increase in the money supply.
Explain why the curve(s) moved as drawn. What happens to GDP, unemployment rate, and the inflation
rate?
B) Draw the IS/LM/FE diagram for the Neo-Classical Model. Illustrate the effects of a 2% increase in
government spending at a time when people were expecting a 5% increase in government spending.
Explain why the curve(s) moved as drawn. What happens to GDP, unemployment rate, and the interest
rate?