

**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.

The following questions are to be done before the lab.

1) (15 points each) For each event, determine how the event affects the monetary base, the money multiplier, and the money supply. Explain your logic.

A) The Fed buys bonds.

B) People decide to keep a greater percent of their liquid assets as cash.

2) (20 points) Use the real MS/real MD diagram to prove that if the Fed controls the interest rate, they lose control of the money supply.

3) (10 points) Why do many economists feel that the Fed should use rules rather than discretion when using monetary policy? Give an example of a rule in your answer.

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

4) (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.