

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. Place your name on an otherwise blank page of the Excel file. 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) (10 points) Explain why the Solow Residual does not accurately reflect the changes in technology.

2) (40 points) Draw a positive productivity shock on the production function diagram, IS/LM/FE and LRAS/SRAS/AD diagram. Explain why the curves moved as drawn. According to the model, are the following variables procyclical or countercyclical: the interest rates, productivity of labor and inflation? Which one does not fit the data? How do the believers of the RBC theory explain the discrepancy?

Questions #1 and #2 are to be done before class and Question #3 will be done during the lab.

3) Use the page on the [Excel Sheet \(Lab3\)](#), tab “Lab” to answer this question.

A) (15 points) Calculate the Laspeyres CPI for each year using every year as a base year. In other words, you will have 36 entries – six years (2009 - 2014) with each of the six base years.

B) (5 points) Calculate the inflation for each of the five years which it can be calculated for.

C) (10 points) Compare your results in Part B for the base years of 2010 and 2013. Why do you think they have such different results? Explain your logic in a box typed in on the Excel file.

D) (10 points) Calculate the Paasche price index for each year with 2010 as the base year. Calculate the inflation rate using this data.

E) (10 points) What is the PCE for every year using 2010 as the base year? Calculate the inflation rate for every year.