

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 2012 as the base year. Calculate the inflation rate for every year possible.
- B) Calculate the Paasche price index for all years, with 2012 as the base year. Calculate the inflation rate for every year possible.
- C) Calculate the PCE index for all years, with 2012 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 high 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 high 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 GDP? Explain your logic.

4) (10 points) Explain EITHER how menu costs OR fixed markup can cause price rigidity.

5) (14 points) Answer EITHER Part A OR Part B.

- A) Explain how labor hoarding affects the Solow Residual.
- B) The Neo-classical model says we should have neutrality of money, but the data says M1 is a leading indicator. How do they explain that?

6) (18 points) Answer EITHER Part A OR Part B.

- A) Draw the SRAS/LRAS/AD diagram for an economy at equilibrium in the Neo-classical model with the Misperceptions Theory’s version of the SRAS Curve. Illustrate the effects of an 5% increase in the money supply when people expected a 3% increase in the money supply. Explain why the curve(s) moved as drawn. What happens to GDP and the price level?
- B) Draw the SRAS/LRAS/AD diagram for an economy at equilibrium in the Neo-classical model with the Misperceptions Theory’s version of the SRAS Curve. Illustrate the effects of an 4% increase in government spending when people expected a 6% increase. Explain why the curve(s) moved as drawn. What happens to GDP and the price level?

7) (18 points) Answer EITHER Part A OR Part B.

- A) Draw the efficiency wage diagram, a.k.a. effort curve. Explain why it takes that shape. How does it explain wage rigidity? What is the macroeconomic problem with that model? How do Neo-Keynesians explain that is not really a problem?
- B) Which variable does the Neo-classical model predict wrong? What do they predict and how do they reach that conclusion? How do they explain the contradiction?