

Do not write your name on the assignment. Write your name only on the back of this sheet of paper and staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 1 point on the assignment.

Because this course has both a homework assignment and a test due during your last week in the course, the assignments must slowly begin moving to come due at the beginning of each week. Therefore, I propose that each assignment be due on the day of the week prior to the day of the previous assignment. Therefore, this assignment will be due Thursday and the next one will be due on Wednesday. If any of those dates are poor, we can change them.

This assignment covers chapter 9 section V through chapter 9 section IIIB.

1) (10 points each) Why do the events listed below cause increased cyclicity of GDP? Note that the results of the simulations reported on pages 325 and 326 show what happens to cyclicity as these events are adjusted for.

- A) The oil shocks.
- B) The money supply.

2) Use the following data to answer the questions below. Since some of the parts are easier to do with a spreadsheet, you may want to do all parts with a single spread sheet so that they can be prepared. E-mail me the file if you choose that method. Otherwise, show all work.

1997	1998	1999	2000	2001	2002
80	85	100	110	105	100

- A) (5 points) Use the *no change* and *same change* methods to estimate the next 20 years values for this variable.
- B) (5 points) Use the *same proportion* method to estimate the next 20 years.
- C) (10 points) Use the *five-period moving average* method to estimate the next 20 years.
- D) (10 points) Use the *five-period weighted-moving average* method to estimate the next 20 years.
- E) (10 points) Use the *five-period moving average of differences* method to estimate the next 20 years.
- F) (10 points) Use a *regression with a time trend* to forecast the next 20 years.
- G) (15 points) Given the patterns of movements of the variable in the different cases, which methods do you think will generally not be realistic? Explain why you feel this.

3) (15 points) What variables might we have ex-post forecasts of? Why would we have those forecasts as opposed to a simulation?