

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.

This assignment covers chapter 11 section IIE through the end of the chapter.

- 1) (25 points) Why are diffusion indices good for predicting turning points in series? In other words, explain why the different stages in figure 11.3 have those properties.
- 2) (15 points) How can diffusion indices reduce the problem of noise in a variable?
- 3) (15 points) Why are surveys of consumers and businesses so important for forecasting?
- 4) (20 points) Why does the distribution of forecasts have a greater variance near the peak and trough of the cycle than during the boom or recession?
- 5) (25 points) The book mentions a net diffusion index in a footnote on page 373. That is calculated by adding up the percent increases and the percent decreases in the indices. What advantage will it have over the plain diffusion index?