

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. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to follow these directions will cost you 1 point on the assignment and failure to type it will cost you 10 points.

Since there are no new equations in this chapter, there is no equation which I will ask you to explain. I know you are very disappointed with that.

- 1) (15 points) Two of the five points of the definition of a business cycle which the book emphasizes are very similar. What are the two? How are they different?
- 2) (15 points) The business cycles have become less severe over time. The book mentions many different possible reasons. Give one explanation and explain the economic logic which is behind that cause.
- 3) (10 points) Some economists feel that the pre-1929 booms and recessions may be mis-estimated. Why might that occur?
- 4) (20 points each) For each of the variables below, determine if it is pro-cyclical, counter-cyclical, or acyclical? Explain the economic reason for that property. Is it a coincident, leading, or lagging indicator? Explain the reason for that.
 - A) Inventory investment.
 - B) Inflation.
 - C) Consumption.