

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 10 points. Turn in the Excel file via Canvas with your name on an otherwise blank sheet. 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) (15 points) Run the regression using the data in the Lab #1 of the Excel file [lab6.xlsx](#). Remember the proper way to use the time to predict the quantity. Would you be willing to rely on this information to estimate the quantity over time? Why or why not?
- 2) (25 points) Use the data in Lab #2 to forecast quantity as a function of time, price, and income. Check for multi-collinearity of the independent variables. Is it acceptable to leave all three variables in? Why or why not? **If it is not acceptable**, re-run the regression without one variable and tell me why you left that variable out. **If it is acceptable**, then tell me how much you would expect to sell to a person with an income of \$50,000 if you charged \$10/unit in 1960.
- 3) (15 points) What variable does the Neo-Keynesian Model predict wrong? Explain what their model predicts and why it predicts that. Explain how they explain the contradiction.
- 4) (20 points) Draw a Keynesian Liquidity Trap. Explain why the graph looks like it does and why that means monetary policy will not work in that situation.
- 5) (25 points) Draw a SRPC/LRPC diagram for a country which has an expected inflation of 5% and an actual inflation rate of 5%. Illustrate the effects of an increase in the money supply of 10%, but people changing their expectations of the money supply increase to 7%. Explain why the curve(s) moved as drawn. Where on the graph do we end up? State how you found it.