Wilf Csaplar Jr.　　　　Economics 350　　　　Homework #6　　　　**Due Friday 3/17**

Place your name on the back of this sheet of paper and nowhere else. Staple your answers face up on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Turn in the Excel file via Canvas. Place your name on an otherwise blank page of the Excel file. Failure to type this assignment 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.

All questions except for Questions #1 & #2 should be done before class.

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) Use an appropriate graph to show what the Keynesian model says is the cyclicality (pro-cyclical or counter-cyclical) of inflation. Explain how they conclude that is the cyclicality.

4) (15 points) Use an appropriate graph to show what the Keynesian model says is the cyclicality (pro-cyclical or counter-cyclical) of the APN. Explain how they conclude that is the cyclicality.

5) (15 points) One of those two variables, inflation or APN, has its cyclicality predicted wrong by the Keynesian model. How do they explain the contradiction.

6) (15 points) Draw the augmented short-run Phillips Curve/long-run Phillips curve. Assume we start where they cross with 4% inflation. Illustrate the effects of people changing their expectations of the money supply to increase 5%. At the same time, the money supply actually increases 3%. Explain why the curve(s) moved and how you found the new point on the graph.