Write your name on the cover of the test booklet and nowhere else. Enclose this sheet with the booklet.
The Excel file will be handed in via Canvas. Your name will only appear on a page of the file that has
nothing else on it. Failure to follow these directions will cost you 1 point. The test has 100 points (to be
scaled up to 170 points) and is scheduled to take 50 minutes (but you can take the full 2 hours.)
Therefore, expect to spend 1 minute for every 2 points. For example, a 10-point question should take 5
minutes.

1) (10 points) Answer EITHER Part A OR Part B.
A) The Neo-Classical school believes in the neutrality of money in the short-run. However, if you look
at your supplemental text, the AIER uses M1 to forecast while the Conference Board uses M2 to forecast.
Explain how money can be neutral and it still be used to predict GDP.
B) Explain why the SRAS curve slopes up in the Rational Expectations Model.

2) (12 points) Use the page on the Excel Sheet (Exam2), tab "forecast" to answer this question. These
are the actual winning margins of the Boston Celtics' games. (I was going to use Bethany's Men's
Lacrosse, but with only 1 game played, that did not work.) Forecast the rest of the next 7 games using
the same value method. Forecast the rest of the next 7 games using the same change method. Forecast
the rest of the next 7 games using the same percent change method. Forecast the rest of the next 7 games
using the 6-period moving average method. Forecast the rest of the next 7 games using the 3-period
weighted moving average method

3) (8 points) Which simple forecast from Question #2, is best for growth of GDP or GDP?

4) (16 points) Draw the Neo-classical SRAS/LRAS/AD diagram. Illustrate the effects of EITHER the
event in Part A OR the event in Part B. Explain why the curve(s) moved as drawn. What happens to
GDP, inflation, and unemployment rate?
A) The money supply decreases by 1.3% while people expect it to increase by 2.0%.
B) Government spending is cut by $2 billion, but people expect it to be cut by $1 billion.

5) (18 points) Use the page on the Excel Sheet (Exam2), tab "CPI" to answer this question. Calculate the
Laspeyres CPI for each year using 2020 as a base year. Calculate the inflation for each of the years
which it can be calculated for. Calculate the Paasche price index for each year with 2020 as the base
year. Calculate the inflation rate using this data. Calculate the PCE Index for every year using 2020 as
the base year. Calculate the inflation rate for every year.
B) (6 points) Which year would be a particularly bad year to use as a base year? Explain your logic.

6) (30 points) Answer EITHER Part A OR Part B.
A) Draw the IS/LM/FE diagram and the real MS/real MD diagram with the economy in the current
situation of 3.4% unemployment rate. State how you know the graph has an appropriate unemployment
rate. Illustrate how the economy self-corrects without government intervention. Explain why the curves
moved as drawn. What happens to the unemployment rate, real GDP, and real interest rates? Explain
your logic. https://www.bls.gov/news.release/pdf/empsit.pdf
B) Draw the IS/LM/FE diagram and real MS/real MD diagram, with the economy at full employment.
According to https://www.ceicdata.com/en/indicator/united-states/m2-growth, M2 shrank in December
by 1.3%. Illustrate the effects of that assuming that neutrality of money holds in the short run. Explain
why the curves moved as drawn. What happens to the unemployment rate, real GDP, and real interest
rates? Explain your logic.