Wilfrid W. Csaplar Jr., Ph.D.   Economics 350   Exam #2   2020/2/26

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) (16 points) Use the tab "CPI" on exam2.xlsx to calculate the CPI for all years using just 2016 as the base year. Calculate the Paasche Price Index and PCE Index for all years with 2016 as the base year. Calculate all inflation rates which can be calculated.

2) (12 points) Use the tab "Forecast" on exam2.xlsx to forecast the winning margin for the next 7 games. (These are the actual winning margins for Bethany College's lacrosse team last season.)

3) (12 points) Answer EITHER Part A OR Part B.
A) For Question #1, would 2017 be a good year to use? Explain your logic including mentioning the two things you want when choosing a year.
B) Which of the methods of forecasting use in Question #2 would be best for forecasting GDP? Explain your logic. Which would be best for forecasting the growth rate of GDP? Explain your logic.

4) (12 points) Answer EITHER Part A OR Part B.
A) What is the *Misperceptions Theory*? Use it to explain how we can have high unemployment in the Neo-Classical Model.
B) The Classical Model concluded that we are always at full employment. In the Neo-Classical Model, they explain the fluctuation of the unemployment rate two ways. The first is discussed in Part A. Explain the other way that the unemployment rate can get worse during a recession.

5) (12 points) Answer EITHER Part A OR Part B.
A) What is the difference between real shocks and nominal shocks? Which one does the Neo-Classical school feel will not affect GDP? Explain their logic.
B) What is the formula for the Solow residual? Explain how labor hoarding will affect it.

6) (16 points) Answer EITHER Part A OR Part B.
A) If the efficiency wage is paid by most firms, then what would be the impact on the FE line if there was an increase in the labor force? Explain your logic using the labor supply/labor demand diagram.
B) Draw the kinked demand curve. Explain why it looks as drawn and how that could lead to price rigidity.

7) (20 points) Answer EITHER Part A OR Part B.
A) Draw the Neo-Classical SRAS/LRAS/AD diagram. Illustrate the effects of a 4% increase in the money supply when people were expecting a 6% increase. Explain why the curve(s) moved as drawn. What happens to the GDP and unemployment rate? What value would you expect the inflation rate to be? Explain your logic.
B) Draw the Neo-Classical SRAS/LRAS/AD diagram. Illustrate the effects of a 2% decrease in the money supply when people were expecting a 1% increase. Explain why the curve(s) moved as drawn. What happens to the GDP and unemployment rate? What value would you expect the inflation rate to be? Explain your logic.