

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) (10 points) Most of the semester, we have drawn a very flat SRAS curve. Explain how menu costs can result in that shape curve.
- 4) (20 points) Draw a real MS/real MD diagram to show how a liquidity trap can cause expansionary monetary policy to be ineffective. Explain why the monetary policy is ineffective. Go to <https://tradingeconomics.com/japan/government-bond-yield> and click on 10Y on the graph. Do you think Japan was in this situation in 2020? Do you think they are in the situation now? Explain your logic for both. Note these are the yields on 10-year government bonds.
- 5) (20 points) Use an appropriate graph to explain how the Neo-Keynesians think the cyclical nature of the marginal product of labor should be. Explain how that graph concludes that cyclical nature. In reality, the MPN does not have that cyclical nature. How do they Neo-Keynesians explain the contradiction.
- 6) (10 points) Explain, without doing mathematics, why companies might have a fixed markup for determining their prices. How does that lead to price rigidity?