

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 Moodle. 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) (6 points each) This question refers to the [Excel © file's](#) page called "CPI." Do ALL three parts.

A) Find the CPI and inflation rate using the Laspeyres Price Index with 2008 as a base year.

C) Find the CPI and inflation rate using the Paasche Price Index with 2008 as a base year.

C) Why do you think the inflation rates from 2006 to 2007 and from 2007 to 2008 were so extreme?

Explain your logic.

2) (16 points) Use the page on the [Excel © file](#) called "Grades" to answer this question. Use the data to do the following forecasts: Same Value, Same Change, Same Percentage Change, Five Period Moving Average, and Three Period Weighted Moving Average to predict this person's grades through the rest of the course.

3) (10 points) For EITHER the variable in Part A OR the variable in Part B, which method of forecasting used in Question #2 would be best? Explain your logic.

A) Price Level

B) Interest rates.

4) (18 points) Answer EITHER Part A OR Part B.

A) Draw the SRAS/LRAS/AD diagram for a country which acts as the *Misperceptions Theory* would predict. Illustrate the effects of an increase in government spending of 5% but people expected the spending to increase by 7%. Explain why the curve(s) moved as drawn. What happens to GDP and inflation?

B) Some of the more radical Republicans feel we should balance the budget now or soon. Which school of thought are they most likely to agree with, Neo-Keynesian or Neo-Classical? Explain your logic including an explanation of what that school predicts would happen if the government reduces its spending as these politicians say they should.

5) (18 points) Answer EITHER Part A OR Part B.

A) Use the SRAS/LRAS/AD diagram to explain how the Neo-Keynesians explain the business cycle. Given this diagram, do they feel that inflation is pro-cyclical or counter-cyclical? Explain your logic. Does this agree with the statistics? If yes, then briefly explain why the SRAS curve takes its shape. If not, then explain how they explain the contradiction.

B) Draw the diagram for the efficiency wage. Use it to explain why real wages may be sticky.

6) (20 points) Answer EITHER Part A OR Part B.

A) The Solow Residual is altered by *labor hoarding*. The Neo-Keynesian explanation of why they predict a variable wrong uses *labor hoarding* as a key part. What is *labor hoarding*? For BOTH of those schools, explain how they use *labor hoarding* in their explanation.

B) The two schools of thought conclude that monetary policy cannot work or at times it will not work. Which school reaches which conclusion? Explain how BOTH of them reach their conclusions. Use the IS/LM/FE diagram to explain ONE of them.