

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) (8 points each) Answer ALL parts on the tab “Price” Excel © file [exam2.xlsx](#) .

- A) Calculate the Laspeyres price index for all years, with 2014 as the base year. Calculate the inflation rate for every year possible.
- B) Calculate the Paasche price index for all years, with 2014 as the base year. Calculate the inflation rate for every year possible.
- C) Calculate the PCE index for all years, with 2014 as the base year. Calculate the inflation rate for every year possible.
- D) Which year would be a bad year to use as a base year? Briefly explain your logic.

2) (12 points) Use the tab “temperature” on the Excel © file [exam2.xlsx](#) to forecast the high temperature for the next 14 days using the *same value, same change, same percent change, 8 day moving average, and 3 day weighted moving average*. (These are the actual high temperatures for Bethany on these dates.)

3) (18 points) Answer EITHER Part A OR Part B.

- A) Draw the effort curve diagram. Explain why it takes its shape. How can that explain sticky wages?
- B) Explain how a fixed markup can cause price rigidity.

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

- A) Which type of shock does the RBC model feel causes most of the business cycles? Illustrate that on the LRAS/SRAS/AD diagram. Explain why the curve(s) moved as drawn. What does that imply about the cyclical nature of the price level? Explain your logic.
- B) Draw the SRAS Curve for the Rational Expectations Model. Explain why it looks as drawn. What does this implicitly assume about the rigidity of prices? Explain your logic.

5) (20 points) Answer EITHER Part A OR Part B.

- A) Use the IS/LM/FE diagram to explain the neutrality of money. Which school believes that holds in the short run?
- B) Draw the LRAS/SRAS/AD diagram for the Rational Expectations Model. Illustrate the effects of the government increasing the money supply by 3%, but people expected the money supply to increase by 5%. Explain why the curve(s) moved as drawn. What happens to GDP and price level?