

The last one!

Place your name on the back of this sheet of paper and nowhere else. Staple your answers on the front of this sheet of paper. Failure to follow these directions will cost you 10 points. Turn in the Excel file via Canvas with your name on an otherwise blank sheet. Your assignment will be typed, except graphs can be drawn by hand and mathematical equations can be done by hand. Failure to type it 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.

I looked at the syllabus and discovered that we are still behind where we should be and there are no classes on Monday, so I will be giving the exam back with an answer key. I hope to finish grading it Wednesday 4/8, and get you the answer key on Thursday 4/9. On Friday, we will finish Chapter 13 and possibly start Chapter 14.

The first question refers to the spreadsheet "Lab" on the Excel file "[lab8.xlsx](#)" from last week's lab. Each date is for the two-month period which starts then. So, "Jan. 2002" is for January and February of 2002.

1) (40 points) Run a regression to estimate the Sales as a function of Time. Use the results to create a column which is called trend. Use that column and the columns created in Lab #8, to create the column "normal." Now use this information to predict Sales up through the end of 2020.

2A) (25 points) Draw the supply/demand for US\$ with Mexican peso as the other currency. I just learned that the symbol for the Mexican peso is \$ or MXN\$. Interestingly all of their currency writes out the word peso rather than use either symbol. Suppose the US government pegged it such that $20\text{MXN}\$ = 1\text{US}\$$ but the market equilibrium would have been $24\text{MXN}\$/\text{US}\$$. Illustrate that on the graph. What problem is created? What would the Fed have to do to keep the exchange rate there? Explain your logic. What does that do to our money supply?

2B) (10 points) Can the Fed keep this peg forever? Explain your logic.

2C) (10 points) Suppose the Mexican government had done the peg. Could the Banco de México keep this peg forever? Explain your logic.

2D) (15 points) Draw the diagram of the fundamental exchange rate and the official exchange rate. Show where the economy started in Part A. Show how we move. Explain why we moved like that.