Midterm Exam #1 – Take Home Questions.

Each is worth 15 points. Please hand in your typed answers at the beginning of the exam (9:50 A.M., Wednesday, April 17, 2013.) Treat these questions as formal essays; that is, provide mechanically correct language and full references for sources that you employ.

1. On Friday, April 5th, the Bureau of Labor Statistics released its Employment Situation Report for March 2013. (<http://www.bls.gov/news.release/pdf/empsit.pdf>). Assume that you have been asked to brief Lawrence’s Board of Trustees on the state of labor markets; that is, to interpret the most important aspects detailed in the report. Write a statement in **no more than two pages** that puts the report in context; use you space wisely. You may include one extra page of graphs or tables if you so choose. This brief should not use a font less than 12 point, should be double-spaced, and should have a 1 inch margin on all sides.
2. According to the *Economic Report of the President 2013*, “the purpose of a price index is to provide a single measure of the overall rate of change of prices for some set of goods and services (74)…” Explain why no single price index can accurately reflect inflation. The Federal Reserve Bank uses the Personal Consumption Expenditures deflator. Indicate the advantages and disadvantages of using this index rather than the Consumer Price Index. If you were asked which index should be used to update pension programs such as Social Security, how would you answer? Why? As with the first question, your answer should not exceed two pages of text and one page of tables or graphics. As with the first question, your paper should not use a font less than 12 point, should be double-spaced, and should have a 1 inch margin on all sides.