

EE 325 Take home quiz 5 ☺ (Total 10 points)

1. To assess the effect of the Fed's policy of deregulating interest rates beginning in July 1979, Sidney Langer estimated the following model for the quarterly period of 1975-III to 1983-II

$$\hat{Y}_t = 8.5871 - 0.1328P_t - 0.7102Un_t - 0.2389M_t + 0.6592Y_{t-1} + 2.5831Dum_t$$
$$se = (1.9563) \quad (0.0992) \quad (0.1909) \quad (0.0727) \quad (0.1036) \quad (0.7549)$$
$$R^2 = 0.9156$$

Where Y = 3-month Treasury bill rate

P = expected rate of inflation

Un = seasonally adjusted unemployment rate

M = changes in the monetary base

Dum = dummy, taking value of 1 for observations beginning July 1, 1979

- a. (5 points) Interpret the results.
- b. (2 points) What has been the effect of interest rate deregulation? Do the results make economic sense?
- c. (3 points) The coefficients of P_t , Un_t and M_t are negative. Can you offer an economic rationale?