

UNIVERSITY OF ROCHESTER

William E. Simon Graduate School of Business Administration

FIN 533

Special Topics in Finance

Professor G. William Schwert

Fall 2000

Homework Assignment #4 Due: November 15, 2000

Use the data files for homework 1 (F533HW1.WF1) to analyze the following question. In Milton Friedman's Nobel lecture he proposed an important mechanism by which monetary policy could have real effects: Inflation uncertainty could be higher when inflation is higher.

Test this hypothesis using the time series data on U.S. CPI inflation rates and short-term interest rates from 1926-2000.

You should write a short, concise report that includes a minimum of computer output. Show only what is necessary.