Roll No: _______________

B.A. (Hons.) Business Economics (CBCS) / Semester III
Macro Economics and Application-I
House Examination, 2019

Duration: 2 Hrs. ***All questions are compulsory*** ***Max Marks: 50***

Q1) What do you understand by Macroeconomics and Aggregate Income? Do you think that aggregate income is an indicator of welfare of the economy?

OR

Explain how is equilibrium output determined in an economy? (10 marks)

Q2) a) How is demand for money related to interest rate, at a given level of national income?
b) Show and explain the derivation of IS curve. What causes a shift in IS curve. How does it affect the output? (7.5x 2 marks)

OR

a) How is equilibrium determined in goods and money market together?
b) How is equilibrium level of interest rate and output affected by a fiscal contraction?

Q3) a) Show how interest rate is affected by an increase in nominal income? (7.5x2 marks)
b) Derive the LM curve. Show the shift in LM curve and its effects on the money market.

OR

a) How is equilibrium determined in goods and money market together?
b) How is equilibrium level of interest rate and output affected by a monetary expansion?

Q4) Write short note on ***any one*** of the following (10 marks)
a) Investment Multiplier and its working
b) Paradox of Thrift
c) Crowding out effect
d) Liquidity trap
e) Consumption function

Assignment 1

Course B.A (Hons)Business economisc III Sem

(2018 – 2019) Odd semester

Paper Macro Economics and its applications

Assignment 1 (with viva – voce)

1. Discuss the multiplier effect of a change in autonomous spending on the equilibrium level of income.
2. State True or False. Give reasons in support of your argument & explain briefly (Any 0ne)

   a) Increase in nominal income lead to decrease in the interest rate
   b) GDP deflator is more comprehensive and broad indicator of cost of living then CPI.
   c) Interest rate and bond prices are inversely related.

3. Assume the following model of the economy for closed economy IS-LM :

   i. $C = 0.8(Y^d)$
   ii. $T = 1{,}000$ $I = 800 – 20r$
   iii. $G = 1{,}000$
   iv. $M^d = 0.4Y – 40r$
   v. $M^S = 1{,}200$
   vi. $P = 1$

   Where C=Consumption, Y^d= Disposable Income T=Tax Revenue I= Investment, r=rate of interest, G=Government Expenditure, $M^{d=}$Demand for money, M^s=Money Supply P=Price level

   a. Derive formula for the IS curve, showing Y as a function of r alone.
   b. Derive formula for the LM curve, showing Y as a function of r alone.
   c. What are the short-run equilibrium values of Y, r, Y^d, C, I?
   d. Assume that G increases by 200. By how much will Y increase in short run equilibrium?
   e. Assume that G is back at its original level of 1,000, but MS (nominal money supply) increases by 200. By how much will Y increase in short-run equilibrium?

Test 1 (Marks 25)

1. Explain that the IS – LM model characterizes the implications of equilibrium in both the goods and the financial markets. What is the impact of expansionary fiscal policy on the economy's output and interest rate? (15)
2. Given C= 20+0.8Yd

   I = 60

   TA = 40

   TR = 10

   G = 30

   Compute equilibrium level of income. Find the new equilibrium level of income when (G) increases from 30 to 40 and taxes (TA) increases from 40 to 50. (5)

3. Show that at the given interest rate, an increase in nominal income shifts the demand for money to the right. (5)

Test 2 (Marks 25)

1. Using wage setting and price setting relations explain the labour market equilibrium. Show that the natural rate of unemployment is associated with the natural rate of employment and natural output level. (15)
2. "Higher the mark up chosen by the firms, the lower the real wage implied by price setting decisions will be" Explain. (5)
3. What are the factors that determine unemployment and output in the medium run? (5)

MCQ's

1) Who is credited with bringing the term "the invisible hand" in economics?

a) Adam Smith
b) John Maynard Keynes
c) F. Hayek
d) Samuelson

ANSWER: a) Adam Smith

"The invisible hand" refers to the market forces that lead to eventual benefit of overall society when individuals are pursuing their goals for their own good alone. The phrase was used in his 1776 book "An Inquiry into the Nature and Causes of the Wealth of Nations"

2) Who is called as the 'founding father of modern economics'?

a) Adam Smith
b) John Maynard Keynes
c) F. Hayek
d) Samuelson

ANSWER: a) Adam Smith

Adam Smith's â€œ1776 book "An Inquiry into the Nature and Causes of the Wealth of Nations" many of the major ideas that we use in economics today

3) Macroeconomics as a separate branch came to be studied after the contributions of which economist?

a) Adam Smith
b) John Maynard Keynes
c) F. Hayek
d) Samuelson

ANSWER: b) John Maynard Keynes

John Maynard Keynes's 1936 book, 'The General Theory of Employment, Interest, and Money' laid the foundations for Macroeconomics

4) When did the Great Depression hit the United States?

a) 2007
b) 1929
c) 1936
d) 2001

ANSWER: b) 1929

The economic depression began after the stock market crash of 1929 that eventually led to the loss of over 13-15 million jobs.

5) Consider the following statements:

1. In a Capitalist economy there is private ownership of means of production
2. In a communist nation, the means of production are owned by the State
3. In a free-market economy there is minimum role of the Government

Which of the above 3 statement is/are true?

a) Only 1 and 3
b) Only 2 and 3
c) Only 3
d) All are true

ANSWER: d) All are true

6) Macroeconomics is a study of economics that deals with which 4 major factors:

a) households, firms, government, and demand-supply
b) households, firms, government and external sector
c) firms, government, free-market, and regulations
d) none of the above

ANSWER: b) households, firms, government and external sector

7) What are consumption goods?

a) Goods used for consumption in the production process
b) Goods such as tools, machinery, etc which are used to create final consumption goods
c) Goods and services that are consumed fully when purchased by the consumers
d) None of the above

ANSWER: c) Goods and services that are consumed fully when purchased by the consumers

8) What are Capital goods?

a) Goods used for consumption in the production process
b) Goods such as tools, machinery, etc which are used to create final consumer goods
c) Goods and services that are consumed fully when purchased by the consumers
d) None of the above

ANSWER: b) Goods such as tools, machinery, etc which are used to create final consumer goods

9) Intermediate goods are not included to calculate the final output because:

a) they do not have value
b) they have unknown value
c) their value is included in final goods so they are not added to avoid the problem of double counting
d) none of the above
ANSWER: c) their value is included in final goods so they are not added to avoid the problem of double counting

10) What does the term Gross investment mean while denoting a nation's economy?

a) Gross investment= Net investment + Depreciation
b) Gross investment= Net investment - Depreciation
c) Gross investment= Depreciation - Net investment
d) None of the above

ANSWER: a) Gross investment= Net investment + Depreciation

11) The records of exports and imports in goods and services and transfer payments is known as

a) Current account
b) Budget surplus
c) Economic leakage
d) degree of openness
ANSWER: a) Current account

12) Exchange rates for one currency against another currency, are known as:

a) Real exchange rate
b) Nominal exchange rate
c) Superfluous exchange rate
d) None of the above
ANSWER: b) Nominal exchange rate

13) The ratio of foreign rates to domestic rates measured in the 'same' currency is known as:

a) Real exchange rate
b) Nominal exchange rate
c) Superfluous exchange rate
d) None of the above
ANSWER: a) Real exchange rate

14) Which among the following is taken as the real measure of a country's international competitiveness?

a) Real exchange rate
b) Nominal exchange rate
c) Superfluous exchange rate
d) None of the above

ANSWER: a) Real exchange rate

15) When the exchange rate is determined by the market forces of demand and supply, it is known as :
a) Real exchange rate
b) Nominal exchange rate
c) Superfluous exchange rate
d) Floating exchange rate
ANSWER: d) Floating exchange rate