

Indian Institute of Technology Patna

End Semester(2017) Examination

Introductory Macroeconomics – HS202

Time:3 hours

Marks : 50

Answer all the questions:

1. For a Country 'Ugolibia' fill in the missing figures from the balance of payments account given below: (1x6=6 Marks)

	Credits (+), Debits (-)	\$m (2016)
	Current account	
1	Exports of goods	1545
2	Imports of goods	-1305
3	Balance of trade in goods	-----
4	Exports of services	490
5	Imports of services	-365
6	Balance of trade in services	-----
7	Income receipts (investment income)	410
8	Income payments (investment income)	-525
9	Net income receipts (investment income)	??
10	Current transfers (net)	-70
11	Net income flows	-----
12	Current account balance	-----
	Capital account	
13	Capital account transactions (net)	-----
	Financial account	
14	Direct investment, net	-220
15	Portfolio investment, net	-95
16	Reserve assets funding	25
17	Errors and omissions	-30
18	Capital and financial account balance	-----

2. Answer the following questions ((3x4=12 Marks)

- If your consumption increases from \$30,000/yr to \$40,000/yr when your disposable income increases from \$84,000 to \$96,500/yr calculate MPC.
- If aggregate demand increased by \$4,500 and MPC is 0.60, find the change in GDP.

- c) If real GDP decreased by \$10 billion and the multiplier is 2.5, find the change in aggregate demand.
- d) Find the multiplier if a \$425,000 decrease in investment expenditure resulted in a \$2 million decrease in real GDP.
3. Each term in the following list is essentially or nearly a synonym for another in the same list. Identify these pairs by putting the letter of the synonym in the blank provided. **(0.5x17= 7 Marks)**

a. appreciation
b. supply of foreign currency
c. law of one price
d. dirty float
e. floating exchange rate
f. devaluation
g. demand for domestic currency
h. pegged exchange rate
i. revaluation
j. fixed exchange rate
k. managed float
l. depreciation
m. purchasing power parity
n. flexible exchange rate

diagrams
4. With the help of the ~~diagrams~~ show how inflationary gap is different from the deflationary gap? **6 Marks**

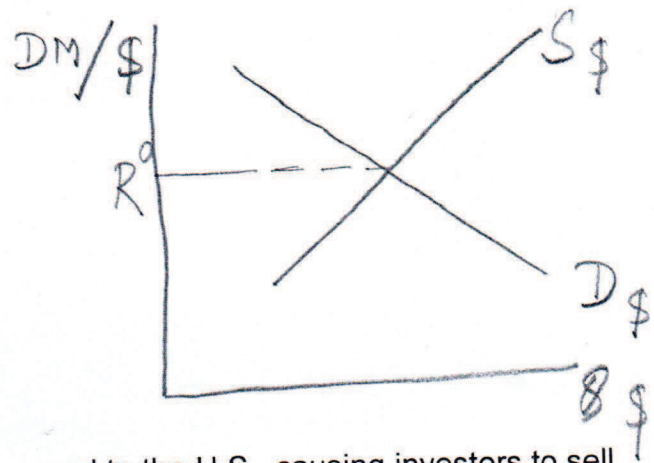
5. Suppose that the economy is self regulating that the price level is 132, that the quantity demanded of Real GDP is \$ 4 trillion, that the quantity supplied of Real GDP in short run is 3.9 trillion and that the quantity supplied of Real GDP in the long run is \$ 4.3 trillion. Is the economy in the short run equilibrium? Will the price level in long –run equilibrium be greater than, less than or equal to 132? Explain. **6 Marks**

6. In a tabular form show the difference between the functions of Central Bank and Commercial Bank. **4 Marks**

7. For each of the following changes, represent the change by an appropriate shift of the Aggregate supply and/or demand curves for currency shown at the right. Then record whether the indicated currency appreciates or depreciates as a result of the change, by circling the appropriate word. **(3x3=9 Marks)**

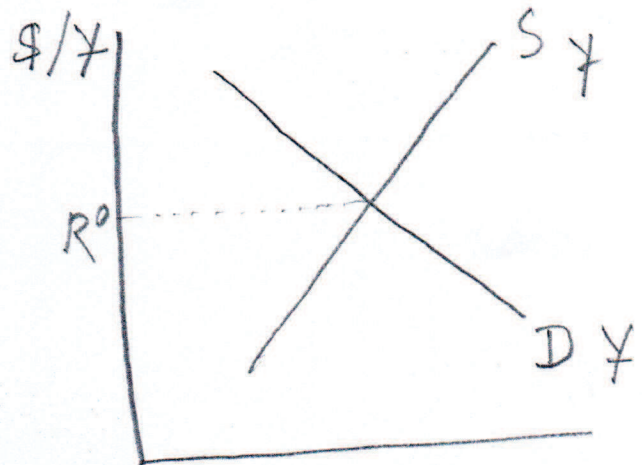
- a. A new model of Jeep, made in America, is successful in sales to Germany (taken here to be still using the Deutsche Mark (DM))

The DM appreciates
or
depreciates



- b. Japan reduces its interest rate compared to the U.S., causing investors to sell Japanese bonds and buy U.S. bond.

The \$ appreciates
or
depreciates



- c. Germans, unhappy with monetary unification, transfer their bank balances to the U.K.

The £ appreciates
or
depreciates

