

**Indian Institute of Technology Patna**

**HS202: Introductory Macroeconomics**

**End Semester (May 2013)**

**Time: 3 Hours**

**Marks : 50**

**Answer all the questions**

**1. A. Define M1 and M2 with the help of equations? (5 Marks)**

**B. Explain whether you think that each of the following should be counted as part of the narrow money supply for India: (3 Marks)**

- a) Saving accounts,
- b) Big Bazar Coupon ,
- c) Postage stamps,
- d) Credit cards,
- e) 200 Rs bills used by Russian in Moscow.

**C. Identify which of the following purchases is counted as a part of National Income: (2 Marks)**

- a) Tata motors purchases tire from Good year to equip new Indica.
- b) Tata motors purchases tires from Good year to replace worn tires on executives' company cars.
- c) An individual purchases 50 shares of Microsoft.
- d) You purchased a laptop from Japan .
- e) Indian Institute of Technology Patna gives Scholarship to the students.
- f) Employee contributes to retirement plan.

**2. A. Distinguish between a closed economy and an open economy. Use diagram to show the difference? (4 Marks)**

**B. Consider this information about a closed economy: (2+2+2 Marks)**

$$C = 50 + 0.80 (Y - T)$$

$$I = 200$$

$$G = 100$$

- a) Find out the equilibrium level of income.
- b) Suppose G increases to 125 what is the new equilibrium level of income?
- c) What level of G is needed to achieve a target income of 200?

**3. For the following questions, begin with an economy in AS-AD long-run equilibrium which is then hit by some event. Please draw a new diagram for each question. (5+5 Marks)**

A. Imagine there is an oil shock as the price of oil unexpectedly increases. Depict the impact on your diagram. Explain at least one way the economy could return to long-run equilibrium **(explaining the diagram is essential)**.

B. A new Apple product has arrived that has increased consumption expenditure across the economy and thus shifted aggregate demand. Depict the impact on your diagram. Price increases caused in this fashion are also known as? Explain how the economy could return to long-run equilibrium **(explaining the diagram is essential)**.

**4. a. Explain the primary functions of the Commercial Bank.**

**b. Are you agreeing with the recent statement of State Bank of India (SBI) Chairman that 'CRR is a waste for the economy'? Support your answer through diagram. (7+3 Marks)**

**5. Write short answers for any five (100 words on each) (making diagram will be appreciated) (2.5x4=10 Marks)**

a. Open market operations

b. Mixed economy

c. Exchange rate

d. Reverse repo rate

e. Gold Standard