

Indian Institute of Technology Patna

Mid Semester Examination-2016

HS202- Introductory Macroeconomics

Marks:30

Time: 2 Hours

Answer all the questions

1. Attempt any five short questions. (Do not write more than 50 words on each)
(3x5=15 Marks)

- A. Why is the aggregate demand curve slopes downward?
- B. Give your intuition as to why the AS curve will be upward sloping in the short-run & vertical in long run?
- C. What is the difference between the short-run & the long run in macroeconomics?
- D. Distinguish between marginal propensity to consume & average propensity to consume
- E. What is the difference between GDP & GNP? Which one is the better measure of income? Why?
- F. Explain circular flow of income in two sector model economy.

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

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

3. You are given the following information about an economy. Based on the information below calculate Gross Investment and Government Expenditure
(3 Marks)

GNP- Rs. 5000.00

Personal Disposable Income-Rs. 4100.00

Consumption-Rs. 3800.00

X-M-Rs. 50.00

Govt. Budget Deficit-Rs. 200.00

4. Read the sentences below and write *True* or *False* against each sentence-(1/2 x10=5 Marks)

- a. According to the basic model of competition in a market, firms seek to maximise profits
- b. Combinations of goods and services that lie within the production possibility curve show an inefficient allocation of scarce resources

- c. A fall in the size of the available labour supply, other factors remaining constant, will cause an outward shift of a production possibility curve
- d. In a market economy, prices provide incentives to help the economy use scarce resources efficiently
- e. The rate of interest is the only factor that determines the level of capital investment spending by privately owned businesses
- f. Monetary policy and fiscal policy changes affect aggregate demand through different routes, but they tend to have similar effects on the level of demand, output and prices
- g. It can take up to two years for the full effects of an interest rate change from the Bank of England to have its full effects on the macro economy
- h. It can take up to two years for the full effects of an interest rate change from the Bank of England to have its full effects on the macroeconomy.
- i. When the Federal Reserve carries out a contractionary open market operation, it raises the price of bonds, and lowers the output level
- j. An economy with a persistent high unemployment rate is usually associated with a low labor participation rate.

5. Fill in the blanks with appropriate words (1/2x10=5 Marks)

- a. The principal source of a central bank's control over the money supply is.....
- b. Whenever the economy enters a recession its long run aggregate supply curve shifts to the.....
- c. The aggregate demand curve slopes downward because it is the horizontal sum of the demand curves for
- d. The long run aggregate supply curve is because economic forces do not affect long run aggregate supply
- e. Net Export means the difference between export and.....
- f. When per capita income is measured from real GDP (measured at constant price) is called
- g. Current transfers are those which are paid from current and are added in current income of recipient.
- h. Normal resident of a country is that person or institution whose centre of economic interest lies in
- i. The problem of double counting can be solved by deducting intermediate consumption from value of output.