

Indian Institute of Technology Patna
HS202-Introductory Macroeconomics
End Semester Examination 2015

Total Marks 50

Time- 3 Hours

Answer all the questions.

1. (A.) As the inflation rate increases, would you take more or less money out per each ATM visit? Describe your answer logically.

(B.) If you spent \$20 to buy some goods or services today. How much money would you have needed in 1980 to buy the same amount of goods or services?

The average CPI for 1980 = 82.4

The average CPI for 2014 = 224.9

(C.) Your brother told you that in 1970 a movie ticket had a cost of 50 cents in US. How could you tell if movies have increased in price faster or slower than most goods and services? To convert that price into today's dollars, use the CPI.

The average CPI for 1970 = 38.8

The average CPI for 2014 = 218.8

(5+2.5+2.5=10 Marks)

2. Read the table and answer the following questions

Table-1 Output Per Worker

Good	Country	
	A	B
X	8	6
Y	4	2

The table-1 shows labor productivities, i.e., outputs per worker. That is, these numbers report the quantity of output per unit of labor at each country can produce in the two industries, X and Y. Determine which country has

- A. Absolute advantage in good X.

- B. Absolute advantage in good Y.
- C. Comparative advantage in good X.
- D. Comparative advantage in good Y.

(4 Marks)

3. In latest years, UK's trade with the European Union has grown quickly, so that today around 50% of all visible trade is with the UK's European Union partners.

- A. What is meant by visible and invisible trade?
- B. Advocate why a large amount of UK's trade is with the European Union and what lessons other countries may take from this example?
- C. Explain two ways in which a country might protect its domestic market from imports
- D. Study the table below and calculate the balance of trade and the current account balance.

Exports/Imports	£million
Visible exports	186,921
Visible imports	179,578
Invisible exports	50,807
Invisible imports	42,665

(2+2+2+2+2=10 Marks)

4. How is interest rate determined within IS-LM model (show the determination with the help of the diagramme). How can a central bank affect interest rate in the IS-LM model? (draw a figure) How do you derive LM curve from equilibrium on Money market.(draw a graph).
(4+3+3=10 Marks)

5. Write short answer on any four (100 words on each) :

(4x4=16 Marks)

- a. Open market operations
- b. Capital account
- c. Cost push inflation
- d. Shift in Aggregate Demand(AD)
- e. Crowding Out