

Indian Institute of Technology Patna

HS 202 -Introductory Macroeconomics

Quiz -Marks: 50

Time: 3 hours

Answer all the questions

1. Differentiate between cost-push inflation and demand pull inflation. What steps you will suggest to control 'demand pull inflation'. (6+4=10 Marks)
2. Evaluate the effects of the following changes on the demand for M1 and M2. Which of the functions of money do they relate to? (2x5=10 Marks)
 - a. 'Instant cash, machines that allow 24 –hour withdrawals from savings accounts at banks
 - b. An increase in inflationary expectations
 - c. Widespread acceptance of credit cards
 - d. Fear of an imminent collapse of the government
 - e. A rise in the interest rate on time deposit
3. a. Give at least two reasons why higher profit may increase the rate of investment. (5 marks)
- b. Explain why lenders may ration the quantity of credit rather than merely change higher interest rates to more risky borrowers. (5 Marks)
4. Discuss the circular flow model where savings are equal to investment. What is an investment multiplier? What will be the formula for investment multiplier? (3+5+2=10 Marks)
5. a. Draw a Phillips curve. What this curve indicates? (2+2= 4 Marks)
- b. Does a current account deficit matter in economic growth? (3 Marks)
- c. Discuss the new trade theory. (150 words only) (3 Marks)