Indian Institute of Technology Patna

End Semester Examination

HS202: Introductory Macroeconomics

Time: 3 Hours **Marks: 50**

Answer all the questions

1. Describe the initial effect of the following events on the short-run and long-run Phillips curve. That is, describe the movements along a given curve or the direction of the shift in the curve. **(2 x5=10 Marks)**

A). An increase in expected inflation
b). An increase in the price of imported oil
c). An increase in the money supply
d). A decrease in government spending
e). A decrease in the minimum wage, which lowers the natural rate

2. Fill in the missing figures from the balance of payments account for a Country given below: **(2x7=14 Marks)**

	Credits (+), Debits (-)	**$m (2011)**
	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	??

3. If a country's central bank were to engage in activist stabilization policy, in which direction should it move the money supply in response to the following events? (2x5=10 Marks)

- **a)** A wave of optimism boosts business investment and household consumption.
- **b)** To balance its budget, the government raises taxes and reduces expenditures.
- **c)** OPEC raises the price of crude oil.
- **d)** The taste for the country's products amongst the residents of other countries declines.
- **e)** The stock market falls.

4. Suppose the economy is in a recession. Policy makers estimate that aggregate demand is €100 billion short of the amount necessary to generate the long-run natural rate of output. That is, if aggregate demand were shifted to the right by €100 billion, the economy would be in long-run equilibrium
(2x5=10 Marks)

- **a)** If the government chooses to use fiscal policy to stabilize the economy, by how much should they increase government spending if the marginal propensity to consume (MPC) is 0.75 and there is no crowding out?
- **b)** If the government chooses to use fiscal policy to stabilize the economy, by how much should they increase government spending if the marginal propensity to consume (MPC) is 0.80 and there is no crowding out?
- **c)** If there is crowding out, will the government need to spend more or less than the amounts you found in (a) and (b) above? Why?
- **d)** If investment is very sensitive to changes in the interest rate, is crowding out more of a problem or less of a problem? Why?
- **e)** If policy makers discover that the lag for fiscal policy is two years, should that make them more likely to employ fiscal policy as a stabilization tool or more likely to allow the economy to adjust on its own? Why?

5. Write short notes on any two : **(2x3=6 Marks)**

a. Money Multiplier

b. Reverse Repo Rate

c. Net Export

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