

Indian Institute of Technology Patna

Mid Semester Examination

HS202 Introductory Macroeconomics

Total Marks 30

Time Two Hours

Answer all the questions

1. Which of the following statements is correct? 1 Mark

a. Real GDP is the total market value of the final goods and services produced in America for sale in a year valued in the prices of 1992.

b. Your buying stock in the stock market is an example of investment spending

c. Social security and welfare are examples of spending on infrastructure.

2. Which of the following would cause the demand curve for automobiles to shift to the left? 1 Mark

a. an increase in the price of the automobiles

b. an increase in the interest rate paid to borrow money to pay for the automobile

c. an increase in buyers' incomes

d. an increase in the cost of production of automobiles

3. Suppose it is announced that industry analysts are predicting that **decreased** oil supplies from Iraq will cause gasoline prices to rise, beginning next month. In the current week, the announcement would: 2 Marks

a. shift the supply of gasoline right c. shift the demand for gasoline left

b. shift the demand for gasoline right d. have no effect on the demand or supply of gasoline

4.	National		Disposable			
	<u>Income</u>	<u>Taxes</u>	<u>Income</u>	<u>Consumption</u>	<u>Investment</u>	<u>Government</u>
	\$100	\$100	0	\$ 50	\$ 25	\$100
	200	100	100	125	25	100
	300	100	200	200	25	100
	400	100	300	275	25	100
	500	100	400	350	25	100
	600	100	500	425	25	100
	700	100	600	500	25	100
	800	100	700	575	25	100

Using these numbers, the equilibrium real GDP (equal to National Income) is: 2 Marks

- a. 300 b. 400 c. 500 d. 600 e. 700

5. What is the aggregate demand curve? Why is it downward sloping? Why is the aggregate supply curve vertical? What determines the price level? (3 x4 =12 Marks)

6. What differences does it make whether the economy is closed or open (describe with figures)? Illustrate by examining the effects of an increase in government expenditure.

12 Marks