

Indian Institute of Technology Patna
Mid Semester Examination 2015
HS202 Introductory Macroeconomics

Time-Two Hours

Marks: 30

1. Match the following with most appropriate option-

(9 marks)

A. The AS-AD model is	(a.) Gross investment minus depreciation.
B. Long-term aggregate supply curve vertical	(b.) Output increases
C. The slope of the short-run aggregate supply curve	(c.) $Y-C$
D. According to the short run aggregate supply curve, what happens as the price level rises?	(d.) firms buy the services of labor, land and capital
E. The long-run effect on output and the price level of an adverse supply shock is	(e.) not counting intermediate goods or services
F. The long-run aggregate supply curve shift when	(f.) In the long run, output is fixed by the factors of production
G. The word "final" in the definition of GDP refers to	(g.) that would count the intermediate goods twice
H. Saving is equal to	(h.) $1/P$
I. GDP does not directly include intermediate goods because	(i.) Output is unaffected and the price level rises
J. The factor market can best be described as where	(j.) When the capital stock increases
K. GDP equals	(k.) A supply and demand model for the entire economy
L. Net investment equals	(l.) $C+I+G+(X-M)$

2. Calculate the GDP and Net Exports from the information available in the table below:
(2 marks)

	In billions of dollars
Consumption	3600
Investment	800
Transfer payments	750
Government expenditures	1000
Exports	650
Imports	450
Net foreign factor income	-30

3. Short answer questions

(maximum 30 words on each 2x6=12 Marks)

- A. What does equilibrium mean in macroeconomics?
- B. How do aggregate expenditures affect income or real GDP?
- C. What is GDP gap?
- D. Why does the AD curve slope downwards?
- E. What is the difference between GDP & GNP?
- F. What is GDP deflator and how does it differ from the consumer price index?

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4. Write true/false for all the statements

(0.5x14=7 Marks)

- a. Aggregate demand falls when the price level rises, because higher prices cut real incomes
- b. An increase in the price of some imported goods will show up in the GDP deflator but not in the CPI.
- c. A \$100 million increase in defense spending will have the same impact on equilibrium output as does a \$100 million tax cut.
- d. The marginal propensity to consume is the change in consumption expenditure divided by the percentage change in income.
- e. When $G - T$ is positive, the government budget is in surplus.
- f. If the MPC is 0.8, the marginal propensity to save will be 0.2.
- g. The production of an apple contributes more to GDP than the production of a goldring because food is necessary for life itself.
- h. For an economy as a whole, income equals expenditure because the income of the seller must be equal to the expenditure of the buyer.
- i. A recession occurs when real GDP declines.
- j. From the economic perspective, "there is no such thing as a free lunch."
- k. The factors of production are land, labor, capital, and entrepreneurial ability.
- l. Economic growth means an increase in the production of goods and services and is shown by a movement of the production possibilities curve outward and to the right. Drawing a production possibilities curve bowed out from the origin is a graphical way of showing the law of increasing opportunity costs.
- m. The three approaches to measuring economic activity are the cost, income, and expenditure approaches.
- n. If nominal GDP for 1994 is \$6400 billion and real GDP for 1995 is \$6720 billion (in 1994 dollars), then the growth rate of real GDP is 0.5%.