Indian Institute of Technology Patna

HS202: Introductory Macroeconomics

Time: 2 Hours

Marks : 30

Answer all the questions

1. Use an aggregate demand (AD) and aggregate supply (AS) diagram to illustrate and explain how each of the following will affect the equilibrium price level and real GDP:

   a) Consumers expect a recession

   b) Foreign income rises

   c) Government spending increases

   d) Workers expect high future inflation and negotiate higher wages now

   e) Technological improvements increase productivity

(Make separate diagrame for each part of question -1 2x5=10 Marks)

2. Explain the relationship between money and goods that leads to inflation and deflation. Support your answer with figures and equations. (10 marks)

3. Whenever there is a shift in the investment schedule and/or the consumption-saving schedules, there will be a new equilibrium level of GDP. Explain why this is so.

(8 marks)

In Question 4 each correct answer carries ½ marks ( 2 Marks)

4. (a). Which of the following are equal to one another?

I. aggregate production

II. aggregate expenditure

III. aggregate income

A) I equals II, but not III.

B) I equals III, but not II.

C) II equals III, but not I.

D) I equals II equals III.

(b). If the government runs a budget deficit, then

A) national saving is negative.

B) household but not business saving must pay for the deficit.

C) part of household and business saving finances the deficit.

D) national saving cannot fund investment.

(c ) If the economy's capital stock increases over time,

A) net investment is positive.

B) depreciation is less than zero.

C) depreciation exceeds gross investment.

D) gross investment equals depreciation.

(d) . Economists define depreciation as

A) the decrease in the capital stock from wear and tear and obsolescence.

B) the loss in stock market of a company's value.

C) the drop in the price of a company's product.

D) All of the above answers are correct.