

The LNM Institute of Information Technology

Department: HSS

Macro Economics for Managers

Exam Type: Mid Term

Time: 90 minutes

Date: 04/10/2019

Max. Marks: 30

Instructions: All the questions are compulsory. No partial credits. Marks will be deducted for rewriting or change of response in the answers. Write the paper legibly and neatly. NO clarifications will be entertained. Attempt the paper in *sequence* and answer **NEW** question on a new page. **Total 14 questions.**

PART – I (14 marks)

A- Indicate True or False (in capital letters):

[4x1=4]

1. Gross domestic capital formation refers to investment. **True**
2. In a simple economy with just households and firms, the value of investment plus consumers' expenditure equals GDP. **True**
3. If the value of output by citizens outside the country is greater than the value of output by foreigners inside the country, GNP will be less than GDP. **False**
4. If GDP deflator for the period 2000-2002 is 120%, this means that the value of output with 2002 prices is \$1000 million, when the value of the same output in 2000 prices is \$800 million. **False the deflator is 125%**

Select one appropriate answer for questions 5 to 7:

5. One week, a firm receives £9,000 from its customers. It has to pay £1,000 in taxes on products and £500 in other taxes on production; and it receives £100 in subsidies on products and £50 in other subsidies. Which of the following equals £7,650? [1]

- | | |
|--|--|
| a) The value of its products sold at market prices. | c) The value of its products sold at basic prices. |
| b) The value of its products sold at factor cost. | d) None of the above. |

6. An economy is enlarging its stock of capital goods: [1]

- a) When net investment exceeds gross investment.
- b) When gross investment exceeds replacement investment.**
- c) Whenever gross investment is positive.
- d) When replacement investment exceeds gross investment.

7. The production output of Coca-Cola's company in China is part of _____. The profits of the company which are repatriated to the US on the other hand are part of US _____ but not US _____ [2]

- a) **China's GDP; GNP; GDP** c) China's GDP; GDP; GNP
b) US GDP; GNP; GDP d) US GNP; GNP; GDP

8. Place each of the following transactions in one of the four components of expenditures: consumption, investment, government expenditure, and net exports. [0.5x2=2]

- a) Boeing sells an airplane to the Air Force. **Government expenditure**
b) Boeing sells an airplane to American Airlines. **Investment**
c) Boeing sells an airplane to Air France. **Net exports**
d) Boeing sells an airline to a private person. **Consumption**

9. Suppose a woman marries her manservant. After they are married, her husband continues to wait on her as before, and she continues to support him as before (but as a husband rather than as an employee): How does marriage affect GDP? [2]

Answer = GDP falls by the amount of the manservant's salary.

10. Suppose that nominal per capita GDP was \$40,000 in 2000 and \$60,000 in 2007. If the GDP deflator was 100 in 2000 and 150 in 2007, indicate the 2007 per capita real GDP measured in 2000 dollars. [2]

(Show the calculations in your answer book at the same place and highlight the answer in the box)

Answer = \$40,000

PART II [4x4=16 marks]

11. Discuss the factors affecting the demand for share of a stock with diagram.

- 1) Company performance
- 2) Information about the future profits of the company
- 3) The economy
- 4) Changes in the interest rate
- 5) Special events
- 6) Speculation

12. How many sectors will contribute to economic activity when there is no contact with any other country? Draw the diagram and explain.

Answer = Household, Firm and Government

13. Discuss the difficulties in estimating national income of a country.

- 1) Non – market production
- 2) Imputed Values
- 3) The Underground Economy
- 4) "Side Effects" and Economic "Bads"
- 5) Double Counting
- 6) Treatment of government in national income accounts – Law and order expenditure whether final consumption or capital formation

14. Describe the nature of macroeconomics.

- 1) Aggregative approach
- 2) Expression in money terms
- 3) Underlying relationship between demand & supply
- 4) Income as the link
- 5) Aggregate demand
- 6) Aggregate supply
- 7) Conditions of equilibrium

OR

Discuss the sustainability of the ‘services-led growth’ in the Indian economy.

Service led growth: How sustainable?

- Some economists believe that the dynamic service sector has the capacity to compensate poor agricultural and industrial growth in the future as well and would thus play a crucial role in maintain the growth momentum of the economy
 - A service led growth is sustainable because of the globalization of the services
 - Service is the largest sector in the world as it accounts more than 70 % of the global output
 - Services can now be produced and exported at low cost, therefore, developing countries can sustain a service-led growth as there is a huge room
 - So, industrialization is not the only route to economic development, service-led growth could be other route
 - **Services are hugely important, but they cannot, by themselves, assures rapid and sustained growth of the Indian economy**
- 1) Service sector grew at a slower rate in comparison to the industrial sector during first four decades of economic planning. The high rate of growth after 1991 is due to the rapid growth of the IT sector. In certain years there is very less divergence between industrial growth and service sector growth
 - 2) The methodology of estimating of the output of this sector are weaker than for the commodity producing sectors. Apprehensions about the reliability of the data
 - 3) Studies from few fastest growing economies countries like Botswana, Singapore, China, S. Korea, Thailand, Malaysia, Indonesia covering the period 1965-99 does not reveal any instance of service sector growth exceeding industrial growth

- 4) During IX plan (1997-02) the GDP growth was only 5.5 % PA. Even when services (accounting for half of GDP) grew fast at 7.9 % PA, it could not compensate for the slow expansion of the other half of GDP, made up about equally of agriculture and industry. Therefore, services alone cannot do the job of giving India fast economic growth
- 5) Low employment creation in service sector also shows it cannot be substitute for industrial job creation