DEPARTMENT OF HUMANITIES & SOCIAL SCIENCES
HUL 213 (Macro Economics)
Major Test

Date: 28.04.2008 Max Marks-40
Time : 8.00am to 10.00am

Section-A

Multiple –choice questions (10 marks) (only One option is correct).

1. A pure capitalist system is best characterized by
   (a) a lack of government intervention in economic activity
   (b) the production of large quantities of capital goods
   (c) an equal distribution of income among workers
   (d) all of the above

2. A person grows tomatoes for house consumption. This activity is
   (a) productive activity but is excluded from GNP because no market transaction occurs
   (b) excluded from GNP because an intermediate good is involved
   (c) excluded from GNP in order to avoid double counting
   (d) excluded from GNP because it is part of black economy

3. Which of the following tells you how fast the purchasing power of your bank account rises over time because of interest?
   (a) the real rate of interest
   (b) the nominal rate of interest
   (c) both the real interest rate and the nominal interest rate
   (d) neither the real interest rate nor the nominal interest rate

4. In a certain year, the full employment total output is expected to be Rs. 280 billion at current prices. In the same year, it is estimated that government expenditures will be Rs. 80 billion, taxes Rs. 60 billion, consumer expenditure Rs.140 billion, investment expenditure Rs. 80 billion, saving Rs. 80 billion and net exports minus Rs. 10 billion. To attain price stability under these conditions, the government should
   (a) encourage private investment by reducing corporate income taxes
   (b) increase tax rates and reduce non essential government spending
   (c) increase government expenditures
   (d) discourage personal savings by reducing the interest rate on government bounds

5. Assume that the CRR is 5%. If the RBI buys Rs. 50 million in government bounds from commercial banks, we can say that, as a result of this transaction, the supply of money
   (a) will directly decrease by Rs.50 million and the lending ability of the banking system will decrease Rs.950 million
   (b) is unaffected, but the lending ability of the banking system is increased by Rs. 950 million
   (c) is unaffected, but the lending ability of the banking system is increased by Rs. 1 billion
   (d) will directly increase by Rs. 50 million and the lending ability of the banking system will increase Rs. 1 billion

6. If there is decrease in the price level, the IS curve
   (a) will shift to the left
   (b) will shift to the right
   (c) remain unchanged
   (d) may shift to the right or to the left, depending on the change in interest rate

7. the position (intercept) of the IS curve varies directly varies with
   (a) Government expenditure
   (b) Transfer payments
   (c) Exports
   (d) a and c
   (e) All of the above

8. In which of the following situations will an increase in the money supply have no effect upon output?
   (a) LM is steeply sloped and IS is relatively flat
   (b) LM is vertical and IS is steeply sloped
   (c) LM is steeply sloped and IS is vertical
   (d) LM is relatively flat as is IS

9. The effect of an increase in CRR will be to shift
   (a) A D to the right
   (b) A D to the left
   (c) A S to the right
   (d) A S to the left

10. When there is full employment and aggregate supply is vertical, a 10% increase in the nominal money supply
   (a) has no effect upon the price level
   (b) increases the rate of interest
   (c) increases the real money supply 10%
   (d) none of the above

Section-B

True-False (10 marks)

1. Structural unemployment exists when the economy contracts and people are laid off because of insufficient demand

2. It is possible for gross investment to be negative during a year

3. Consumption function is $C = a + b\ Y_d$, then saving function will be

$$S = -a + (1 - b)\,Y$$

4. An economy contains 2500 one rupee notes. If people hold equal amount of currency and demand deposits and banks maintain reserve ratio of 25%, the quantity of money in the economy will be 4000

5. The rate of return for a proposed investment will increase if future flows are distributed in earlier rather than later periods

6. The I S becomes flatter when there is an increase in the marginal propensity to eonsume (MPC)

7. The L M eurve is vertieal if there is no speeulative demand for money.

8. Aecording to the Keynesians, aggregate supply is positively sloped beeause as price level decreases, interest rates deeline that leads to inerease in real output.

9. An increase is exports shifts both aggregate supply and aggregate demand curves left ward and thus reduces equilibrium output

10. An increase in oil price will cause an economic contraction and higher inflation in oil-importing as well as oil-exporting countries.

Section – C

1(i) Why is monetary policy ineffective in the "liquidity trap"?. Explain.

(ii) If aggregate supply is positively sloped, an increase in government expenditure along with an increase in money supply would result into increases in real income and priee, and uncertain changes in interest rate. Do you agree? Explain **(4)**

2. The following equations describe the economy:

$C = 60 + 0.8\ Y_d$

$T = 100$

$I^* = 150$

$G = 100$

$M_d/P = 0.20\ Y - 10\ i$

$M_s/P = 200$

(a) Find equilibrium output, the rate of interest, and investment.
(b) Find output, the rate of interest and investment when government spending is 120.
(e) Is there crowding – out? Explain your answer. **(5)**

3. Explain carefully what is meant by aggregate supply curve. Describe the difference between classieal and Keynesian views of aggregate supply curve.**(4)**

4. Every market economy suffers from imperfections leading to such ills as inflation, unemployment, excessive pollution, and extremes of wealth and poverty that call for ameliorating role for government. Do you agree? Discuss

Or

The HDI has been able to present some aspects of human development that GNP tends to miss. Do you agree? Discuss. **(4)**

5. Write short-notes on any three of the following.
(a) Efficiency wages
(b) Moral Suasion
(c) Purchasing power parity
(d) Benefit principle of Taxation
(e) Law of diminishing returns **(3)**