

Instruction: Answer All Questions. There is Only One Correct Answer.

1. Choose the Correct (*Best*) Alternative.

[0.5 × 16]

(i) In a (free) market economy, economic activity is guided by

- A. the government.
- ☒ B. private corporations.
- C. central planners.
- D. the president

(ii) GDP is *not* considered a very good measure of economic prosperity because

- A. it does not include non-market and non-monetized transactions / activities.
- B. it is purely a monetary measure.
- C. it does not include environmental degradation.
- ☒ D. both (A) and (C) above.

(iii) Real GDP

- A. moves in the same direction as unemployment. ✖
- B. is not adjusted for inflation. ✖
- ☒ C. also measures real income.
- D. all of the above are correct. ✖

(iv) If you order for 'home delivery' from a local restaurant,

- A. neither GDP nor consumption will be affected because you are going to eat at home only. ✖
- ☒ B. consumption increases and so is GDP.
- C. GNP will be higher, but consumption spending will be unchanged.
- D. GDP will be unchanged, but consumption spending will be higher.

(v) Which of the following is NOT true?

- A. the GDP-deflator is a lagging indicator.
- B. the WPI measures the cost of a given market basket of goods.
- C. biases in the CPI can affect the Social Security system.
- ☒ D. the WPI does not include imported goods.

(vi) What is the difference between GDP and GNP?

- A. GNP does not account for capital consumption allowances.
- ☒ B. GNP includes payments to domestically owned factors of production abroad.
- C. GNP includes indirect taxes but GDP does not.
- D. GNP includes government transfer payments but GDP does not.

(vii) Which of the following national income accounting identities is WRONG?

- ☒ A. $Y \equiv Y_D - T_x + TR$ ✖
- B. $Y \equiv C + S + TA - TR$ ✖
- C. $S + T_x - TR \equiv I + G + NX$ ✖
- ☒ D. $I - S \equiv T_x - TR + G - NX$ ✖

$$Y_D = Y + TR - T_x \quad Y = Y_D + T_x - TR$$

$$S - I = G + TR - T_x + NX$$

(viii) An Italian tourist buys French ^{wine} ~~Coffee~~ in a pub in Mumbai. How will the GDP of India be affected?

- A. it will be unaffected, since a foreigner buys a foreign product.
- B. it will decrease since the wine has to be imported from France.
- ☒ C. it will increase by the value added at the Mumbai pub.
- D. it will increase, but only by the sales tax assessed on the wine.

(ix) If the CPI goes to 150 from 120, then prices have

- A. risen 20 percent
- B. fallen 30 percent
- ☒ C. risen 25 percent
- D. risen 30 percent

$$\frac{30}{120} \times 100$$

(x) Real GDP increases

- A. when there is an increase in the price level.
- ☒ B. when there is an increase in the output of goods and services.
- C. when there is an increase in the population.
- D. at a constant rate over time.

(xi) The value of National Income is

- A. GNP – Depreciation
- B. GNP – Depreciation – Indirect Taxes
- ☒ C. GNP – Depreciation – Indirect Taxes + Subsidies
- D. GNP – Indirect Taxes – Bad Debts – Subsidies

$$1000 = \text{GNP} - (100) - 200 + 50$$

(xii) If national income at factor cost is Rs. 1000 crores, indirect taxes are Rs. 200 crores, while subsidies are Rs. 50 crores and capital consumption allowance is Rs. 100 crores, what is the value of GNP?

- A. Rs. 1050 crores
- ☒ B. Rs. 1250 crores
- C. Rs. 1350 crores
- D. Rs. 1150 crores

(xiii) The Okun's Law states that

- A. real GDP growth increases unemployment.
- B. inflation goes up as unemployment increases.
- C. inflation decreases nominal GDP growth.
- ☒ D. GDP growth above trend decreases unemployment.

(xiv) The value of the vegetables a retired professor grows in his lawn for his own consumption is excluded from national income calculation because

- A. retired people are out of labor force and their activities are not included in the calculation of NI.
- B. its inclusion would mean double-counting.
- ☒ C. the goods are not transacted in the market place.
- D. its contribution is small and thus ignored in the calculation.

(xv) Which of the following will have an effect on GDP?

- A. You lose \$50 betting with a friend.
- B. You buy 1000 shares of Reliance Industries Ltd.
- C. Your wealthy uncle buys a painting by Picasso.
- ☒ D. Your friend's firm in Pune exports computers to Taiwan.

$$S = 1300$$

(xvi) Assume that GDP is \$6000, personal disposable income is \$5100 and the government budget deficit is \$200. Consumption is \$3800 and the trade deficit is \$100. How large is Investment?

- A. \$1300
- B. \$1100
- ☒ C. \$1200
- D. \$1000

$$S - I = (G + TR - T) + NX$$

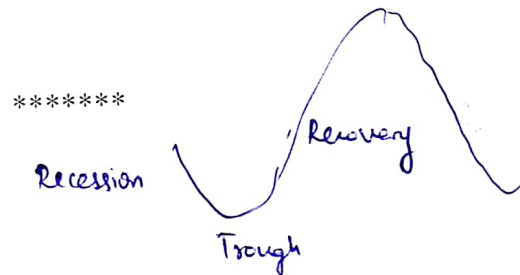
2

$$1300 - I = 200 - 100$$

2. Specify **TRUE** or **FALSE**:

[0.25 × 8 = 2]

- a) Keynesian economists take a non-interventionist approach to macroeconomic problems. **False**
- b) Nominal GDP measures current domestic output at current market prices. **True**
- c) GDP is the sum of wages, rent, interest, and profit minus indirect taxes and depreciation. **False**
- d) GDP tends to understate economic welfare because it does not take into account increases in leisure. **True**
- e) Keynes and Keynesians argued to have general glut in production to avoid starvation and poverty. ~~False~~ **True**
- f) Recession precedes Recovery and Recovery precedes Trough in a business cycle. **False**
- g) Adam Smith the Classical economist said that "supply creates its own demand". **True**
- h) Keynes argued that a capitalist economy can operate with excess capacity and have underemployment equilibrium. **True**



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1. (i)	A	<input checked="" type="checkbox"/> B	C	D
1. (ii)	A	B	C	<input checked="" type="checkbox"/> D
1. (iii)	A	B	<input checked="" type="checkbox"/> C	D
1. (iv)	A	<input checked="" type="checkbox"/> B	C	D
1. (v)	A	B	C	<input checked="" type="checkbox"/> D
1. (vi)	A	<input checked="" type="checkbox"/> B	C	D
1. (vii)	A	B	C	<input checked="" type="checkbox"/> D
1. (viii)	A	B	<input checked="" type="checkbox"/> C	D
1. (ix)	A	<input checked="" type="checkbox"/> B	<input checked="" type="checkbox"/> C	D
1. (x)	A	<input checked="" type="checkbox"/> B	C	D
1. (xi)	A	B	<input checked="" type="checkbox"/> C	D
1. (xii)	A	<input checked="" type="checkbox"/> B	<input checked="" type="checkbox"/> C	D
1. (xiii)	A	B	C	<input checked="" type="checkbox"/> D
1. (xiv)	A	B	<input checked="" type="checkbox"/> C	D
1. (xv)	A	B	C	<input checked="" type="checkbox"/> D
1. (xvi)	A	B	<input checked="" type="checkbox"/> C	D

Question No. 2

2. a)	False
2. b)	True
2. c)	False
2. d)	True
2. e)	True
2. f)	False
2. g)	True
2. h)	True

Marks Obtained: 9.5Shubhankar Mikir Seth

SIGNATURE

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Sem I / 2017-18

Quiz II