HS 101 # Principles of Economics Instructor: Neha Gupta

End-semester Exam # Maximum Marks: 40 Time: 3 hours 16 November 2018

Answer the following questions pertaining to the short-run dynamics of a closed economy:

1. When is the goods market said to be in equilibrium? Derive the condition characterizing it. (2)
2. When is the money market said to be in equilibrium? Derive the condition characterizing it. (2)
3. (i) Derive the impact (magnitude and direction) of increased government spending on equilibrium output and interest rates.

   (ii) Explain 'crowding out' that happens because of this expansionary fiscal policy. (6)

   (iii) Which of the following contributes to a higher extent of crowding out:

   (a) Lower income sensitivity of money demand

   (b) Lower interest sensitivity of money demand

   (c) Higher interest sensitivity of private investment demand

   (d) Higher income tax rate
4. What kind of open market operations can the central bank undertake to stimulate higher output? Derive the impact (magnitude and direction) of an increase in money supply on the equilibrium output and interest rates. Under what conditions would such an expansionary monetary policy be most effective? (5)
5. Consider a situation where the economy is at full employment. Now the government wants to change the composition of output toward investment away from consumption without, however, allowing aggregate demand to go beyond full employment. What is the required policy mix? Use the IS-LM diagram to show your policy proposal. (3)

True or False: **(20*0.5 = 10)**

1. When an Indian doctor opens a practice in London, his production there is part of Indian GDP. F
2. GDP does not make adjustments for leisure time and environmental quality. T
3. The CPI is computed by finding the price of a market basket of goods whose contents vary each year. F
4. If the current year CPI is 140, then, since the base year the price level has increased 40 percent. T
5. Substitution bias in computing the CPI tends to make the CPI overstate the true increase in the cost of living. T
6. The CPI accounts for changes in the prices of imports and the GDP deflator does not. Therefore, the CPI is based on more goods and services than the GDP deflator. F
7. Constant returns to scale is the point on a production function where increasing inputs will no longer increase output. F
8. Lenders sell bonds and borrowers buy them. T
9. Suppose a small closed economy has GDP of \$5 billion, Consumption of \$3 billion, and Government expenditures of \$1 billion. Then domestic investment and national saving are both \$1 billion. T

   1 1 G+I I+C = Y I. 5-3-1
10. Radha uses some of her income to buy mutual fund shares. A macroeconomist refers to her purchase as investment. F

Y - C + G, I - G = TR

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$PV = \frac{FV}{(1+r)^n}$

11. When the government budget deficit rises, national saving is reduced, interest rates rise, and investment falls. T

$(G-T)\uparrow$

12. As the interest rate increases, the present value of future sums decrease, so firms will find fewer investment projects profitable. T

13. Adverse selection is illustrated by people who take greater risks after they purchase insurance. F

14. A minimum wage above equilibrium creates a surplus in the labor market. F

15. If the wage is kept above the equilibrium wage for any reason, the result is structural unemployment. T

16. According to the theory of efficiency wages, firms operate more efficiently if they can pay wages that are below the equilibrium level. F

17. Gold is less liquid than demand deposits. T

18. As banks create money, they create wealth. T

19. The irrelevance of monetary changes for real variables is called monetary neutrality. Most economists accept monetary neutrality as a good description of the economy in the long run, but not the short run. T

20. In the long run, an increase in the growth rate of the money supply leads to an increase in the real interest rate, but no change in the nominal interest rate. F

Choose the best answer: (12*1 = 12)

1. ABC Company produces ink and sells it to XYZ Company, which makes pens. The ink produced by ABC Company is called
   a. an inventory good.
   b. a transitory good.
   c. a preliminary good.
   d. an intermediate good.

2. Consider two items that might be included in GDP: (1) The estimated rental value of owner-occupied housing; and (2) purchases of newly-constructed homes. How are these two items accounted for when GDP is calculated?
   a. Both item (1) and item (2) are included in the consumption component of GDP.
   b. Item (1) is included in the consumption component, while item (2) is included in the investment component.
   c. Item (1) is included in the investment component, while item (2) is included in the consumption component.
   d. Only item (2) is included in GDP and it is included in the investment component.

3. In the CPI, goods and services are weighted according to
   a. how long a market has existed for each good or service.
   b. the extent to which each good or service is regarded by the government as a necessity.
   c. how much consumers buy of each good or service.
   d. the number of firms that produce and sell each good or service.

4. The GDP deflator reflects the
   a. level of prices in the base year relative to the current level of prices.
   b. current level of prices relative to the level of prices in the base year.
   c. level of real output in the base year relative to the current level of real output.
   d. current level of real output relative to the level of real output in the base year.

5. Consider two countries. Country A has a population of 1,000, of whom 800 work 8 hours a day to make 128,000 final goods. Country B has a population of 2,000 of whom 1,800 work 6 hours a day to make 270,000 final goods
   a. Country A has higher productivity and higher real GDP per person than country B.
   b. Country A has lower productivity and lower real GDP per person than country B.
   c. Country A has higher productivity, but lower real GDP per person than country B.
   d. Country ~~B~~ A has lower productivity, but higher real GDP per person than country B.

6. Technological knowledge refers to
   a. human capital.
   b. available information on how to produce things.
   c. resources expended transmitting society's understanding to the labor force.
   d. All of the above are technological knowledge.

7. A bond is a
   a. financial intermediary.
   b. certificate of indebtedness.
   c. certificate of partial ownership in an enterprise.
   d. None of the above is correct.

8. Which of the following is the correct way to figure the future value of \$100 put in an account that earns 4 percent for 10 years?
   a. $\$100(1 + .04^{10})$
   b. $\$100(1 + .04 \times 10)$
   c. $\$100 \times 10 \times (1 + .04)$
   d. $\$100(1 + .04)^{10}$

9. Cyclical unemployment refers to
   a. the relation between the probability of unemployment and a worker's changing level of experience.
   b. how often a worker is likely to be employed during her lifetime.
   c. year-to-year fluctuations of unemployment around its natural rate.
   d. long-term trends in unemployment.

10. If the reserve ratio is 10 percent, the money multiplier is
   a. 100.
   b. 10.
   c. 9/10.
   d. 1/10.

11. An increase in the price level makes the value of money   P↑, M↑
   a. increase, so people want to hold more of it.
   b. increase, so people want to hold less of it.
   c. decrease, so people want to hold more of it.
   d. decrease, so people want to hold less of it.

12. Menu costs refers to
   a. resources used by people to maintain lower money holdings when inflation is high.
   b. ~~resources used to price shop during times of high inflation.~~
   c. the distortion in incentives created by inflation when taxes do not adjust for inflation.
   d. the cost of more frequent price changes induced by higher inflation.

Indian Institute of Technology Bombay
Department of Humanities & Social Sciences
HS 101: Economics

Academic Year: 2018-19 Autumn Semester Date: 10th Sept 2018
Max. Marks: 40 Mid-Semester Exam Time: 18:30 to 20:30

Write all your answer paper provided to you separately

Section-I Short Question

Answers all the 5 questions [Total Marks=5×2=10]

Consider the following scenario for answer question 1 and 2 in the section

Scenario 1:

Suppose the inverse demand function for a monopolist's product is given by $P = 100 - 2Q$ and the cost function is given by $C(Q) = 10 + 2Q$.

Q1) (Given the above scenario 1) If the firm is a single price profit maximizing monopolist then determine the equilibrium price, quantity and the maximum profit.

Q2) (Given the above scenario 1) If the firm can exercise a two part tariff determine the

(a) the constant price
(b) the per-unit price

$-16 + P = 92 - 2P$
$3P = 92 + 16$
$3P = 108$
$P = 36$
$Q = 20$

Scenario 2:

Consider a market where supply and demand are given by $Q_s = -16 + P$ and $Q_d = 92 - 2P$. Suppose the government imposes a price floor of Rs. 40, and agrees to purchase any and all units consumers do not buy at the floor price of Rs.40 per unit.

Q3) (Given the above scenario 2) Determine the cost to the government of buying firms' unsold units.

Q4) (Given the above scenario 2) Compute the lost social welfare (deadweight loss) that stems from the Rs. 40 price floor.

Q5) You are the manager of a small U.S. firm that sells nails in a competitive U.S. market (the nails you sell are a standardized commodity; stores view your nails as identical to those available from hundreds of other firms). You are concerned about two events you recently learned about through trade publications: (1) the overall market supply of nails will decrease by 2 percent, due to exit by foreign competitors; and (2) due to a growing U.S. economy, the overall market demand for nails will increase by 2 percent. Based on this information, should you plan to increase or decrease your production of nails? Explain.

Section-II Short Notes

Answers all the 5 questions **[Total Marks=4×2=4]**

1) Dead weight loss
2) Economic profit vs. Accounting profit
3) Economics of scale vs. diseconomies of scale
4) First degree and third degree price discrimination

Section III-Multiple Choice Questions

Choose the one alternative that best completes the statement **[Total: 44×0.5=22]**
Total Number of Questions: 42
Each correct answer carries 0.5 marks
Each incorrect answer will be negatively graded and 0.25 marks will be deducted

1. Price discrimination in which seller charges less to customers, who buy in large volumes is classified as

A. second-degree price discrimination
B. first-degree price discrimination
C. third-degree discrimination
D. fourth-degree discrimination
E. Two-part tariff

$\frac{1}{2} \times 8 \times 5 + 10 \times 5$

$50 + 20$

$\frac{1}{2} \times 10 \times 7 + 8 \times 7$

$35 + 56$ 91

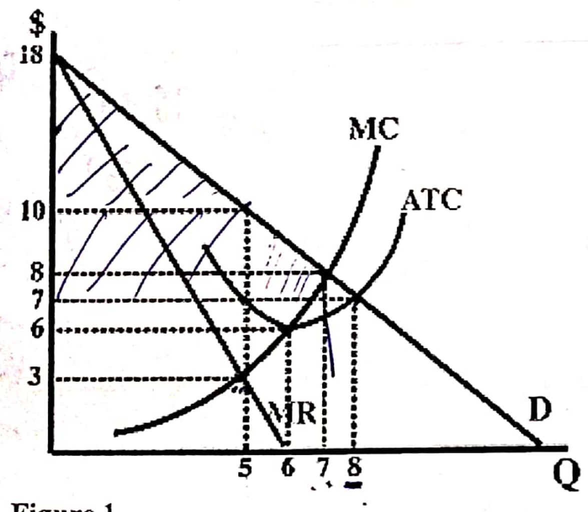


Figure 1

2. If the monopolist depicted in **Figure 1** is maximizing profits, the actual profit earned will be:

A. 20. B. 15 C. 35. D.10. E.40.

3. Remembering that the firm depicted in **Figure 1** is a profit maximizing monopolist, in long run equilibrium price and output will be:

A. Price = 6, Quantity = 6.
B. Price = 3, Quantity = 5.
C. Price = 10, Quantity = 5.
D. Price =7, Quantity = 5.
E. Price = 8, Quantity = 7.

4. If the monopolist depicted in **Figure 1** is able to practice 1st degree (perfect) price discrimination its total revenue will be:

A. 56. B. 64 C. 91. D. 144. E. 40.

5. Publishing companies typically charge libraries higher subscription rates than individuals for technical journals. (By technical journals we mean publications where articles are written by experts in a field for other experts such as the *New England Journal of Medicine* or the *Molecular Biology* or the *Journal of Public Economics*. It is not uncommon to find that rates charged to libraries are 5 or 10 times or even more above those charged to individuals. The best explanation for the ability of the firms to do this is that:

A. libraries have more inelastic demands for technical journals that individuals so the publishers are able to engage in price discrimination.
B. individuals need the journals more so the publishers gives them a break.
C. libraries have more elastic demands for technical journals that individuals so the publishers are able to engage in price discrimination.
D. individuals have more inelastic demands for technical journals so the publishers are able to engage in price discrimination.
E. since libraries have unlimited budgets publishers simply take advantage of them.

Q	P	TR	~~EL~~ MR
1	20	20	
2	19	38	
3	18	54	
4	17	68	
5	16	80	[illegible]
6	15	90	10
7	14	98	8
8	13	104	14

Table 1

6. The data in **Table 1** above are for Lane, the only vendor of brick oven baked goat cheese and avocado pizzas at a sporting event. **Q** is the number of pizzas sold each hour, **P** is the price in dollars. If the vendor determines that her profit maximizing price per pizza is $15 then her marginal cost for each pizza must be:

A. over $6 but no more than $8.
B. over $8 but no more than $10.
C. over $10 but no more than $12.
D. over $12 but no more than $14.
E. over $14 but no more than $15.

7. Dumping in domestic market by a foreign producers is illegal because
A. Foreign producers sells the good at the price less than the domestic producer in the domestic market
B. The foreign firm increases competition in the domestic market
C. The foreign firm exploits the domestic consumer
D. The domestic firms makes economic loss
E. Foreign producers sells the good at the price less than the average cost in the domestic market

8. If a firm uses two-part tariff to price its good then the profit maximization output is
   A. determined where marginal revenue is equal to marginal cost
   B. determined where marginal cost is equal to the demand
   C. when the fixed tariff of the two part tariff is equal to the fixed cost
   D. revenue is maximized
   E. determined where the long run average cost is equal to the demand

9. Suppose two types of consumers buy suits. Consumers of type A will pay \$100 for a coat, and \$50 for pants. Consumers of type B will pay \$75 for a coat, and \$75 for pants. The firm selling suits faces no competition and has a marginal cost of zero. The optimal commodity bundling strategy is:

   A. Charge \$150 for a suit.
   B. Charge \$75 for a suit.
   C. Charge \$100 for a suit.
   D. Charge \$125 for a suit.
   E. Charge \$149 for a suit

10. An electric power company uses block pricing for electricity sales. Block pricing is an example of
    A. first-degree price discrimination.
    B. *second-degree price discrimination*.
    C. third-degree price discrimination.
    D. Block pricing is not a type of price discrimination
    E. Peak load pricing.

11. McDonald's restaurant located near the high school offered a Tuesday special for high school students. If high school students showed their student ID cards, they would be given Rs 50 off any special meal. This practice is an example of:
    A. Collusion.
    B. Second degree price discrimination.
    C. Third degree price discrimination
    D. Two-part tariff.
    E. Bundling

12. You are the producer of stereo components. There are two markets, foreign and domestic. The two groups of consumers cannot trade with one another. If your firm practices third-degree price discrimination, when you have maximized profits, the marginal revenue
    A. in the foreign market will equal the marginal cost.
    B. in the domestic market will equal the marginal cost.
    C. in the domestic market will equal the marginal revenue in the domestic market.
    D. all of the above.
    E. none of the above

13. Cindy, an 18 year old high school graduate, and Luciana, a 40 year old college graduate, just purchased identical hot new sports cars. Acme Insurance charges a higher rate to insure for Cindy than Luciana. This practice is an example of:

A. collusion.
B. second price discrimination.
C. two-part tariff.
D. bundling.
E. none of the above.

14. A national chain of bookstores has initiated a frequent buyer program. If you buy a frequent buyer card for $10, you are entitled to a 10 percent discount on all purchases for 1 year. This practice is an example of:

A. peak-load pricing.
B. intertemporal price discrimination.
C. two-part tariff.
D. bundling.
E. both (a) and (b) are correct.

15. When the movie "Jurassic Park" debuted in Westwood, California, the price of tickets was $7.50. After several months the ticket price had fallen to $4.00. This is an example of

A. peak-load pricing.
B. second-degree price discrimination.
C. a two-part tariff.
D. bundling
E. none of the above.

16. Which ~~two~~ of the following assumptions apply to 'kinked-demand' analysis in oligopoly markets?

A. Rivals will raise prices in response to the firm's higher prices
B. Rivals' reactions are irrelevant.
C. Rivals will tend not to raise prices in response to the firm's higher prices.
D. Rivals will tend not to reduce prices in response to the firm's lower prices.
E. Rivals will reduce prices in response to the firm's lower prices.

17. A defining characteristic of a natural monopoly is that

A. it exists because of legal barriers to entry.
B. it has no close substitutes
C. its average total cost curve slopes downward as it intersects the demand curve
D. its demand curve slopes downward
E. its marginal revenue is equal to marginal cost

18. A single-price monopoly charges the same price
   A. even if the demand curve shift
   B. to all customer
   C. even if the cost curve shift
   D. the price equal to marginal revenue
   E. price is equal to the minimum point of the average cost

19. If the price elasticity of demand is less than 1, a monopoly's would sell
   A. If price is equal to marginal cost
   B. If it can differentiate prices
   C. If marginal cost is zero
   D. If the government restricts the entry of other firms in the market
   E. If the average cost is negative

20. Monopolies can exist because of
   A. Predatory pricing
   B. Failure of anti-trust law
   C. Barriers to entry
   D. Natural selection (natural monopoly)
   E. All of the above

21. The principal difference between economic profits for a monopolist and for a competitive firm is that
   A. Monopoly profits create major problems of equity whereas competitive profits do not.
   B. Competitive profits exist only in the short run whereas monopoly profits may exist in the long run as well.
   C. Monopoly profits represent a transfer out of consumer surplus whereas competitive profits do not.
   D. Monopoly profits are usually larger than competitive profits.
   E. Monopoly can never have negative economic profit whereas competitive firm can have negative economic profit in the short run.

22. From the point of view of economic efficiency, output in a single price monopolized market is
   A. Output is too high as firm make economic profit in long run
   B. Output is too high as the firm has some market power to set prices
   C. Output is too low since the equilibrium is in the positive sloped portion of the marginal cost curve
   D. Output is too low and there is dead weight loss
   E. Either too high or too low depending on the market demand.

23. According to the kinked demand curve model, the prices are rigid because
   A. firms keep their rates of production constant.
   B. there is discontinuity in the marginal revenue curve and marginal cost passes through the discontinuity
   C. firms match their prices
   D. there is discontinuity in the marginal cost curve and marginal revenue passes through the discontinuity

E. All of the above

24. Which of the following is a form of non-price competition?
A. Advertising
B. Quality of service
C. Product quality
D. Product differentiation
E. All of the above

25. A single-price monopoly charges the same price
A. Even if the demand curve shifts
B. To all customer having inelastic demand
C. Even if its cost curve shifts
D. and the price is same as marginal revenue
E. If it only makes economic profit.

26. A single price profit maximizing monopoly firm expands its output and lowers its price. The firm finds that its total revenue falls. Hence, the firm should ______________ production since ________________.

A. Increase; it is in the inelastic range of the demand curve
B. Decrease; it is in the inelastic range of the demand curve
C. Stop: it is in the inelastic range of the demand curve
D. Stop; it is in the elastic range of the demand curve
E. Stop; it cannot differentiate product

27. A single-price profit maximization monopolist would set a price equal to marginal cost if

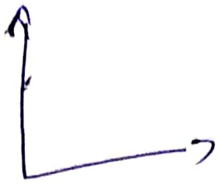
A. Marginal cost is constant
B. Marginal cost is zero
C. Demand curve is perfectly elastic
D. Demand curve is perfectly inelastic
E. Demand curve is elastic

28. A profit maximizing firm in perfect competition produces where:
A. Total revenue is maximised
B. At the minimum point of the average cost
C. Price is equal to the marginal cost
D. At the minimum point of the average variable cost
E. Marginal revenue is equal to the cost

29. In perfect competition:
A. Short run abnormal profits are competed away by firms leaving the industry
B. Short run abnormal profits are competed away by firms entering the industry
C. Short run abnormal profits are competed away by the government
D. Short run abnormal profits are competed away by greater advertising
E. Short run abnormal profit is controlled by barriers of entry.

30. In the long run a perfectly competitive firm would *always* produce output at the
A. Minimum point of the average variable cost
B. Minimum point of the marginal cost
C. Marginal cost
D. At the optimum scale of operation where there is not excess capacity
E. At that scale of operation where there is economies of scale

31. For a perfectly competitive firm the average revenue curve faced by a firms is (quantity is measure in the horizontal axis)



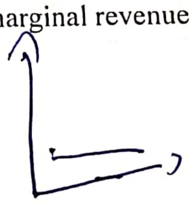
A. Negatively sloped
B. Positively sloped
C. Horizontal straight line
D. Vertical straight line
E. Cannot be determined

32. When Sidney's Sweaters, Inc. makes exactly zero economic profit, Sidney, the owner
A. is taking a loss.
B. will shut down in the short run.
C. Makes an income equal to his best alternative forgone income
D. Will boost income
E. Will produce more

33. A perfectly competitive firm is producing at the point where its marginal cost equals its marginal revenue. If the firm boosts its output, its total revenue will ____ and its profit will ____

A. rise; rise
B. rise; fall
C. fall; rise
D. fall; fall
E. no effect; no effect

34. A perfectly competitive firm's marginal cost exceeds its marginal revenue at its current output. To increase its profit, the firm will



A. Lower its price
B. Raise its price
C. Decrease its output
D. Increase its output
E. Decrease its fixed cost

35. If the price of its product falls below the minimum point on the AVC curve, the best a perfectly competitive firm can do is to
A. keep producing and incur a loss equal to its total variable cost.
B. keep producing and incur a loss equal to its total fixed cost.
C. shut down and incur a loss equal to its total variable cost.
D. shut down and incur a loss equal to its total fixed cost.
E. Increase the production of the good to avoid making loss.

incure

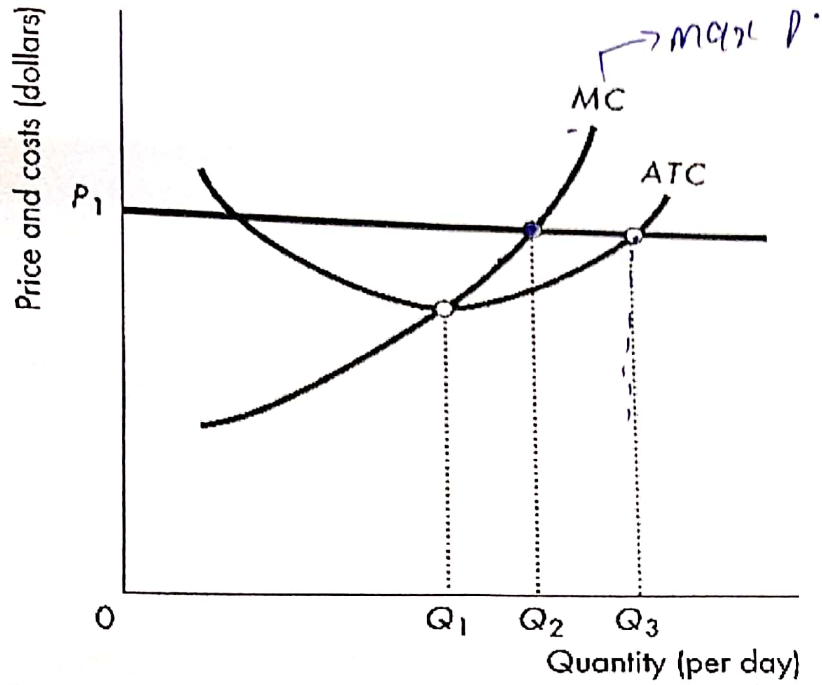


Figure 2

36. In the above figure, if the price is $\mathbf{P_1}$, the firm will produce
    A. Nothing.
    B. Where MC equals ATC .
    C. Where MC equals $\mathbf{P_1}$
    D. Where ATC equals $\mathbf{P_1}$
    E. At $\mathbf{Q_1}$

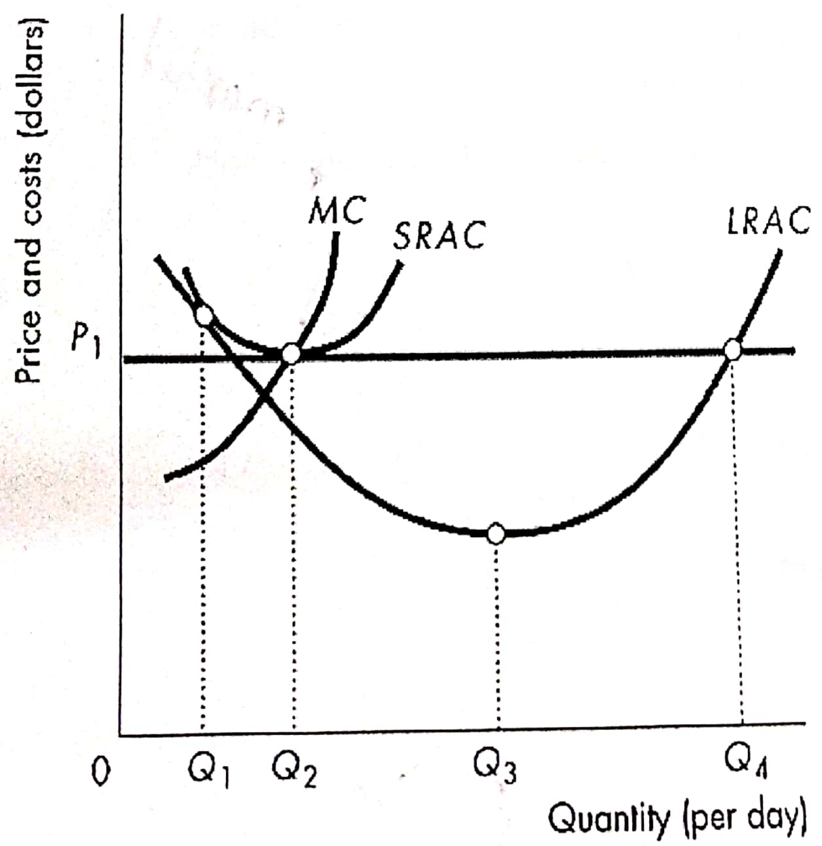


Figure 3

37. In the above figure (figure 3), the firm's initial average total cost curve is SRAC with an initial marginal cost curve of MC. The price of the product is P_1. In the short run the firm will produce output equal to the amount

A. Q_1
B. Q_2
C. Q_3
D. Q_4
E. Q_5

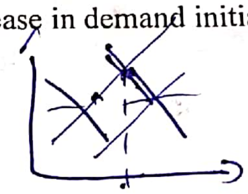
38. In the above figure (figure 3), the firm's initial average total cost curve is SRAC. If the price is P_1 , in the long run the firm will

A. Reduce its plant size
B. Retain the same plant size
C. Expand its plant size
D. Exit the industry
E. Maintain status quo

39. If the cost curves shown in the above figure(figure 3) apply to all firms in the industry and the initial price is P1, in the long run the price will be

A. Zero
B. Less than P_1
C. Equal to P_1
D. Greater than P_1
E. Infinite

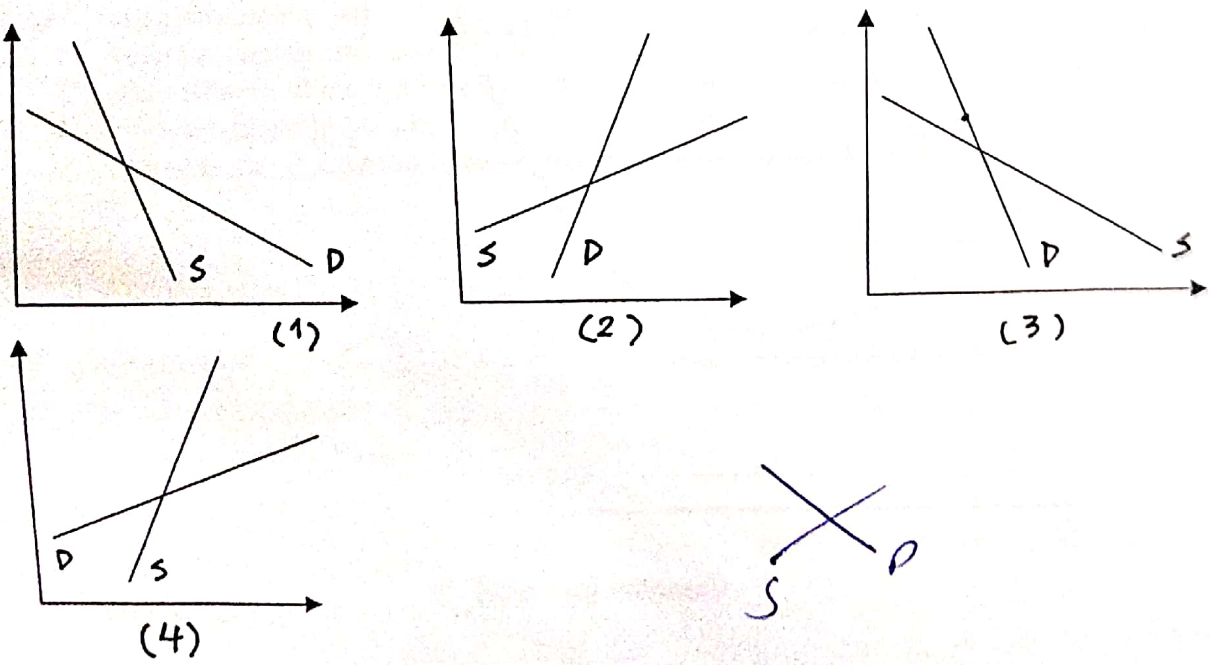
40. In a perfectly competitive industry, a permanent increase in demand initially brings a higher price, economic .



A. Loss, and entry into the industry.
B. Loss, and exit from the industry.
C. Profit, and entry into the industry.
D. Profit, and exit from the industry.
E. Profit, and no entry or exit in the industry.

market

41. Consider in which of the following configuration the demand and supply are stable



A. (1), (2)
B. (1), (3)
C. (1), (4)
D. (2), (3)
E. (2), (4)
F. (3), (4)

42. New reports indicate that eating turnips helps people remain healthy. The news shifts the demand curve for turnips rightward. In response, new farms enter the turnip industry. During the period in which the new farms are entering, the price of a turnip ____________ and the profit of each existing firm ____________.

A. rise; rise
B. rise; fall
C. fall; rise
D. fall; fall
E. no change; no change

43. The exit of existing firms from a competitive market will
A. increase market supply and increase market prices.
B. increase market supply and decrease market prices.
C. decrease market supply and increase market prices.
D. decrease market supply and decrease market prices.

44. Suppose a competitive market is comprised of firms that face identical cost curves. The firms experience an increase in demand that results in positive profits for the firms. Which of the following events are then most likely to occur?
(i) New firms will enter the market.
(ii) In the short run, price will rise; in the long run, price will rise further.
(iii) In the long run, all firms will be producing at their efficient scale.

A. (i) and (ii) only B. (i) and (iii) only C. (ii) and (iii) only D. (i), (ii) and (iii)

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DEPARMENT OF HUMANITIES AND SOCIAL SCIENCE
INDIAN INSTITUTE OF TECHNOLOGY BOMBAY
END-SEM EXAM, HS 101: ECONOMICS

Maximum Marks: 50 Date: 13-11-2017
Weightage: 40 % Time: 14.00 to 17.00 hrs

Instructions: There are two pages of this question paper. See the reverse side also.

Q.1. State whether the following statements are True or false. **[10 x 0.5 = 5 marks]**

i. In a closed economy GDP = C+I+G+X-M.
ii. Use of chain based price index is said to be more appropriate for estimation of real GDP.
iii. Average Propensity to Consume (APC) is the ratio of additional consumption expenditure to additional income.
iv. Magnitude of investment multiplier is same as that of government expenditure multiplier.
v. Any two business cycles are usually identical.
vi. When MPC is low, a major part of increased income is spent.
vii. The main motive of SEBI is to make profit.
viii. Monetary policy is less effective during depression.
ix. All modern economies are closely connected.
x. When currency depreciates exports fall.

Q.2. Rewrite the following statements choosing correct options from the brackets below.

[5 x 1 = 5 marks]

a) Government expenditure as a component of AD excludes ------- and --------.
(taxes, old age pensions, wages, subsidies)

b) Financial System is made up of ------- and --------.
(commodity markets, financial institutions, exchange rate, financial services)

c) Investment demand is directly related to ------- and --------.
(rate of interest, expectations of rising prices, saving, rate of profit)

d) Monetary policy primarily aims at ------- and --------.
(reduction in inequalities, stable prices, poverty alleviation, financial stability)

e) These are phases of trade cycle ------- and --------.
(recovery, declining demand, tax cuts, Prosperity)

write neatly an
Your will get

Q1: (2 Poi
(a) fo

.3. On the basis of given information find the values of the following & write formula used.

[4 X 1 = 4 marks]

i. Inflation rate for the current period $\prod_t$ = ?, if Pt = 120, Pt-1 = 110
ii. The value of money supply multiplier (m = ?) if primary deposit = Rs 600 cr. CRR = 5.0 %
iii. Unemployment rate (U = ?) if labour force = 50 miilion , unemployed = 5 lakh
iv. Marginal propensity to import (mpm = ?), if change in income = Rs. 10 lakh, change in imports = Rs. 60000

Q.4. Draw neat diagram and label for the following [ANY FOUR]: [4 x 1.5 = 6 marks]

I. Determination of output with saving and investment functions
II. Effect of change in interest rate on demand for money
III. Influence of fiscal policy on output
IV. Saving-investment equilibrium
V. Cost push inflation
VI. Outward shift in aggregate supply curve

Marks will be cut if variables on X and Y axis are not indicated.

Q. 5: Explain the following using the diagrams: [2 x 5 = 10 marks]

a) Determination of national output by aggregate demand and supply approach.
b) Working of investment multiplier

Q. 6: Define the following: [1 x 5 = 5 marks]

i. Gross and net investment
ii. Business cycle
iii. Exchange rate
iv. Balance of payments
v. Deflation

Q. 7: Explain the following (ANY THREE). [3 x 2 = 6 marks]

a) Money supply multiplier
b) Foreign exchange market
c) Structural unemployment
d) Non accelerating inflation rate of unemployment

Q. 8. Explain the following (ANY THREE). [3 x 3 = 9 marks]

i. Determinants of consumption
ii. Functioning of open market operations by central bank
iii. Process of credit creation of banks
iv. Functions and working of financial system
v. Objectives of monetary policy

*******PAPER ENDS*******