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(d) Explain the difference / relationship between the following with a hypothetical example. [05 Marks]

- **Nominal GDP and real GDP**

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- **GDP deflator and inflation**

[Total: 25 Marks]

Question 4

(a) Graphically explain the Keynesian equilibrium with planned expenditures and real output of a macro economy.

[06 Marks]

(b) Briefly explain the relationship between the marginal propensity to consume (MPC) and the multiplier.

[04 Marks]

(c) You are given the following macroeconomic data of a hypothetical economy.

$$Consumption\ function\ (C) = 120 + 0.75Yd$$

Government tax (T) = 80, Government expenditures (G) = 140, Investment (I) = 70

(i) Derive the aggregate demand function.

[05 Marks]

(ii) Calculate the equilibrium national income.

[03 Marks]

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(iii) How does the government manage to spend more than its tax revenue? Justify your answer.

[04 Marks]

(iv) Suppose that the government has decided to cut down its expenditure by 40. Identify the impact of this decision on the equilibrium national income through the multiplier process.

[03 Marks]

Index No: ....

[Total: 25 Marks]

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