SASTRA
ENGINEERING · MANAGEMENT · LAW · SCIENCES · HUMANITIES · EDUCATION
DEEMED TO BE UNIVERSITY
(U/S 3 OF THE UGC ACT, 1956)
THINK MERIT | THINK TRANSPARENCY | THINK SASTRA

School of Computing
Third CIA Test – July 2021
Course Code: SH
Course Name: Fundamentals of Economics
Duration: 90 minutes Max Marks: 50

PART A **10 x 1 = 10 Marks**

1.	Discuss on different types of unemployment.
	OR
2.	a. A Rs.200 crore increase in investment (ΔI) leads to a rise in national income by Rs.1,000 (ΔY) crore. Find out Multiplier and marginal propensity to consume. b. In an economy, investment is increased (ΔI) by Rs.600 crore. If the marginal propensity to consume is 0.6, calculate the total increase in income (ΔY) and consumption expenditure (ΔC).

PART B **2 x 20 = 40 Marks**

3.	Consider the following demand and supply relationships in the market for wine: Qd = 90 − 2P (wine) – 2C (cheese) and Qs = −9 + 5P (wine) − 2.5G (grapes), where C is the price of cheese and G is the price of grapes. a) If C = 2 and G = 10, calculate the equilibrium price and quantity of wine. (5 marks) b) At the equilibrium values, calculate the price elasticity of demand and the price elasticity of supply. (5 marks) c) At the equilibrium values, calculate the cross-price elasticity of demand for wine with respect to the price of cheese. What does the sign of this elasticity tell you about whether wine and cheese are substitutes or complements? (10 Marks)		
	OR		
4.	The following table of data represents a business in operation: Output/sales	Total Revenue	Total Costs 0	0	10 1	50	30 2	90	55 3	120	85 4	140	120 5	150	160 6	150	205 7	140	255 8	120	310 a. What is the average revenue for the firm at an output of 6 units? b. What is the firm's profit maximizing output? c. How many units the firm can sell which maximize its revenue? d. At what level of output is average total cost is minimized?		
5.	Consider an economy with the following equations. C= 0.8 (1- t) Y t= 0.25 I= 900 – 50i G = 800 L= 0.25Y – 62.5i M=2,500 P= 5 Where; C is Consumption function, t is Marginal propensity to tax, I is Investment function, G is autonomous Government expenditure, L is liquidity Preference, M is money stock and P is the average price level. a) Derive the IS curve relation for this economy. [3 marks] b) Derive the LM curve relation for this economy. [3 marks] c) Based on your answer in a) and b), interpret the		

	nature of slopes of the IS and the LM curves. [4 marks] d) Determine the equilibrium output and real interest rate for this economy? [5 marks] e) Suppose government increases its expenditure to 1,000. Calculate the new equilibrium output and new interest rate at this level. [5 marks]		
	OR		
6.	An economy is described as follows: C = 150 + 0.84(Y-tY); I=400; G = 700; t = 0.30; X=130; M = 0.08Y a. What's the equilibrium level of Income or GDP? b. What's the equilibrium level of Consumption? c. Is the government running budget deficit?		