Q-1.   Solution: C.

	Nominal GDP	Real GDP
2011	2,800 × 9 + 2,000 × 47 = 119,200	119,200
2012	3,000 × 11 + 1,800 × 52 = 126,600 A	3,000 × 9 + 1,800 × 47 = 111,600 B

GDP deflator = nominal GDP/real GDP $\times 100$

$$= \frac{\text{value of current output at current prices}}{\text{value of current output at base year prices}} \times 100$$

$$= \frac{126,600}{111,600} \times 100 = 113.4$$

A	Value of current output at current prices
B	Value of current output at base year prices

Q-2.   Solution: B.

The IS curve represents combinations of income and the real interest rate at which planned expenditure equals income. Equivalently, it represents combinations such that

$$S(Y) = I(r) + (G - T) + (X - M)$$

Where S(Y) indicates that planned saving is a (increasing) function of income and I(r) indicates that planned investment is a (decreasing) function of the real interest rate. To maintain this relationship, an increase in government spending (G) requires an increase in saving at any given level of the interest rate (r). This implies an increase in income (Y) at each interest rate level—a rightward shift of the IS curve.

Unless the LM curve is vertical, the IS and LM curves will intersect at a higher level of aggregate expenditure/income. Since the LM curve embodies a constant price level, this implies an increase in aggregate expenditure at each price level—a rightward shift of the Aggregate Demand curve.

Q-3.   Solution: B.

Potential GDP will not change in response to an increase in the money wage rate.

Q-4.   Solution: B.

As suggested particularly by the earliest RBC models, a person is unemployed because he or she is asking for wages that are too high, or in other words, this person's utility function is maximized by having more leisure (e.g., free time to visit museums, watch games on TV, and enjoy time with friends) and less consumption (which could be increased by giving up some leisure and finding a job).

Q-5.   Solution: C.

Disinflation is known as a reduction of inflation from a higher to lower, but still above zero, level.