

**Indian Institute of Technology Bombay**  
**Semester I [2014-15]**

**Quiz II of HS 101: ECONOMICS**

**Full Marks: 10**

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**Date: 17/10/2014**

**Roll No. I09045**

**Time: 50 Minutes**

**Sec. S 1**

**Instructions:** Identify the *Correct* choice. There is *only one answer* to each of the following questions. For every **incorrect answer**, **0.25 marks** will be **deducted**.

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**SOLUTION SET**

**Q1.** Choose the *right alternative* in case of the following.

**[0.5×10= 5 Marks]**

**1.** To obtain the *constant* dollar GNP, the GNP at *current* price should be

- (a) Multiplied by a price index.
- (b) Deducted from a price index.

- (c) Added to a price index.
- (d) **Divided by a price index.**

**2.** Which of the following is included in the calculation of GDP?

- (a) **Indian Air Force purchasing new Jeeps and Trucks**
- (b) The purchase of antique furniture

- (c) A barber who cuts the hair of his children
- (d) A Formula One engine produced in a foreign country

**3.** GDP is not considered a very good measure of socio-economic welfare because

- (a) It does not include environmental degradation.
- (b) It is purely a monetary measure.

- (c) It does not include non-monetized transactions/activities.
- (d) **Both (a) and (c)**

**4.** The value of the vegetables a retired school teacher grows in his back yard 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 to NI is usually small and thus ignored in the calculation.

**5.** When comparing one nation's economic position with the other, one should see its

- (a) GNP
- (b) **Per Capita GNP**

- (c) Share prices in the stock market
- (d) None of (a), (b) and (c)

**6.** Aggregate Supply [AS] is determined by:

- (a) Price level and costs
- (b) Potential output

- (c) Capital, labor and technology
- (d) **All of (a), (b) and (c)**

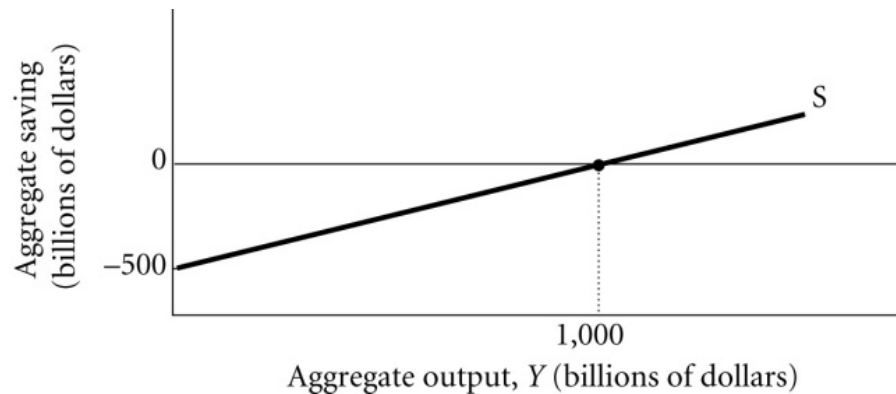
**7.** Macroeconomic policies [e.g., *fiscal & monetary*] are government policies designed to affect:

- (a) The legal system of the whole country
- (b) **The performance of the economy as a whole**

- (c) Manufacturing and services sectors of the economy
- (d) The environmental impact of all industries

8. If you earn additional \$500 in disposable income one week for painting your neighbor's house
- (a) the total of your consumption and saving will increase by more than \$500
- (b) **total of your consumption and saving will increase by \$500**
- (c) your consumption will increase by more than \$500, even if your MPS is 0.1
- (d) the total of your consumption and saving will increase by less than \$500

Question (9) and (10) are based on the following figure [consider taxes to be zero].



9. The household consumption function is
- (a)  $C = 1,000 + 0.2Y$
- (b)  $C = 200 + 0.2Y$
- (c)  **$C = 500 + 0.5Y$**
- (d)  $C = 300 + 0.75Y$
10. This household consumes \$2,000 at an income level of
- (a) \$2275
- (b) **\$3000**
- (c) \$1840
- (d) \$2000

QII. State whether the following statements are TRUE or FALSE. [0.5 × 10 = 5 Marks]

1. CPI can rise even when inflation rate measured by CPI is falling. **True**
2. Value added is difference between value of economy's total output and costs of production. **False**
3. As product quality improves, CPI increases. **False**
4. The most comprehensive measure of aggregate economy wide price level is the GDP deflator. **True**
5. Investment expenditure is the largest component of GDP. **False**
6. Investment in stocks is not considered as capital formation in the study of macroeconomics. **True**
7. Output gap is defined as actual output *minus* potential output. **True**
8. Autonomous consumption is independent of disposable income. **True**
9. Life cycle theory of consumption was propounded by John M. Keynes. **False**
10. GDP is equal to GNP *plus* Net Factor Income from Abroad. **False**