

Quiz 1 [5 marks]

Day and date: Thursday, 20-8-2015

Time: 22.00 to 22.20 hrs.

Roll Number of student: 14D070037

Signature of student: Pompey

Q.1. Choose the right alternative: (2 marks)

- (i) While studying the short run effects of policies, one may assume that all prices are completely fixed. This is the case of:
 (A) Fallacy of composition (B) Post-hoc fallacy (C) Ceteris paribus (D) None of (A), (B) or (C)
- (ii) Pick out the odd notion from the following:
 (A) Net benefit (B) Incentive (C) Return (D) Cost X
- (iii) Pick out the odd notion from the following which relates to International trade:
 (A) Division of labour and specialization (b) Absolute advantage (C) Comparative advantage (D) Factor endowment X
- (iv) Which one of the following is an irrelevant statement as far as study of economics is concerned:
 (A) Economics is a social science
 (B) Economics is a decision science
 (C) Economics is a dismal science
 (D) None of (A), (B) or (C) ✓

Q. 2 Fill in the blanks by the exact word given in the text [or a synonym]: (1mark)

(a) People face tradeoff among multiple goals. ✓(b) Economists try to address their subject with a scientist's rationality (~~or idea~~) ✓

Q.3. State whether the following statements are true or false: (2 marks)

- (a) Marginal also means subtraction to total FALSE + J.
- (b) Adam Smith's ideology favored the notion of visible hand in the economic activity FALSE
- (c) All points on a PPF reflect efficiency of an economy in its productive activity. TRUE
- (d) Circular flow diagram given by Mankiw depicts aspects of both micro and macro economics. TRUE

Paper ends ✓

**Indian Institute of Technology Bombay
Department of Humanities & Social Sciences**

HS 101: Economics

Academic Year: 2015-16

Autumn Semester

Date: 8th Sept. 2015

Max. Marks: 30

Mid-Term Examination

Time: 17.30-19.30 Hrs.

1. Briefly explain ANY SIX of the concepts. [6 × 1.5 = 9 Marks]

- | | |
|--|--------------------------|
| (a) Inferior good — | (b) Producer's surplus — |
| (c) Sunk cost — | (d) Ordinal utility X |
| (e) Value paradox X | (f) Opportunity cost — |
| (g) Cross-price elasticity of demand — | (h) Economic profit — |
| (i) Shut down price (point) X | |

2. Answer ANY TWO of the following questions. [2 × 4 = 8 Marks]

- (a) Elucidate with example(s), governments' price control and its impact on the market.
- (b) Show how indifference curve analysis is used to know the consumer's equilibrium.
- (c) Derive both the *long run* and *short run* supply curve of a firm in a perfectly competitive market.
- (d) Distinguish between *economies of scale* and *economies of scope*.

3. Identify which of the following statements is True or False. [10 × 0.5 = 5 Marks]

- (i) If two commodities are perfect substitutes, then the indifference curves will intersect.
- (ii) All inferior goods are Giffen goods.
- (iii) On a straight-line demand curve, the value of the elasticity will be different at different points.
- (iv) Average variable cost always declines with an increase in output.
- (v) A firm's total cost reflects its production process.
- (vi) A firm's marginal cost does not depend on the level of fixed costs.
- (vii) If countries specialize according to *comparative advantage*, a more efficient use of given resources occur. As a result, the world output of at least one good increases, without decreasing the world output of any other good.
- (viii) If at any given quantity, the marginal revenue of a price-taking firm is larger than the marginal cost, the firm will increase its production.
- (ix) A tax imposed on a supplier will more likely to be passed on to the consumer in the form of a price increase if the demand is elastic.
- (x) Whenever price of a good increases the equilibrium quantity transacted in the market always decreases.

✓ 4. Fill in the blanks in the following statements.

[$6 \times 0.5 = 3$ Marks]

- (i) A ~~historical~~ statement is an assertion about the world "ought to be".
- (ii) For elastic demand, total revenue falls as price _____.
- (iii) A perfectly competitive firm faces _____ demand curve.
- (iv) Marginal cost curve intersects the average cost curve when average cost is _____.
- (v) In a market with free entry and exit, economic profits are driven to _____ in the long run.
- (vi) If the quantity demanded rises from 90 units to 110 units when the price falls from Rs. 120 to Rs. 80 per unit, then the price elasticity of demand will be _____.

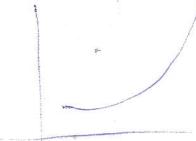
20
40

✓ 5. Multiple Choice Questions. Mark the Best Choice.

[$10 \times 0.5 = 5$ Marks]

- i. Unit elastic supply curve is depicted by a line

- (A) parallel to X-axis.
- (B) parallel to Y-axis.
- (C) passing through the origin.
- (D) none of the above.



- ii. If a resource constrained Government wishes to increase expenditure on education by reducing the expenditure on health, it is an example of

- (A) diminishing marginal utility.
- (B) trade off.
- (C) externality.
- (D) none of the above.

- iii. According to the diminishing marginal productivity, total product

- (A) decreases at an increasing rate.
- (B) decreases at a decreasing rate.
- (C) increases at a decreasing rate .
- (D) increases at an increasing rate.

iv. Which one of the following reflects diseconomies of scale:

- (A) Marginal physical product decreases as output increases.
- (B) Long-run average cost increases as output increases.
- (C) Short run average cost increases as output increases.
- (D) None of the above.

v. If at consumer's equilibrium $MU_X = 10$, $P_X = \text{Rs. } 5$, $P_Y = \text{Rs. } 7$; what is MU_Y ?

- (A) 14
- (B) 10
- (C) 5
- (D) 7

vi. A leftward shift in the demand curve and a rightward shift in the supply curve will

- (A) increase price.
- (B) decrease price.
- (C) leave price unchanged.
- (D) have an indeterminate effect on price.

vii. Which of the following is not an essential pre-requisite for perfect competition?

- (A) Firms believe that they have no control over price
- (B) Homogenous products ✗
- (C) Perfect knowledge about the market for buyers and sellers ✗
- (D) Selling and transportation costs

viii. If price lies above SRAC(short run average cost), the firm is:

- (A) Operating at a loss. ✗
- (B) Operating at a super normal profit.
- (C) Earning zero profits.
- (D) Suspending production.

ix. In a market, consumers' surplus will increase if (all else equal)

- (A) demand and supply curves shifts to left leaving the price unchanged.
- (B) supply decreases.
- (C) demand decreases.
- (D) supply increases.

x. Joe's income is Rs 600. The combinations of gasoline and coffee along one of Joe's indifference curves are combinations

- (A) that require the same total expenditure.
- (B) that he can afford with his 600 income.
- (C) that give Joe the same total utility.
- (D) that give him the same marginal utility

HS 101 – Economics [S2 Division]

QP Code: A

Quiz 2 [5 marks]

Day and date: Thursday, 27-8-2015

Time: 22.00 to 22.20 hrs.

Roll Number of student: 14D070037

Signature of student: Pankaj

Q.1 Fill in the blanks by the exact word given in the text [or a synonym]: (1.5 marks)

- (a) Basically, govt. interventions in the market is necessary because of its [market's] ~~perfect competitive condition~~
(b) In market economies, prices are the ~~element or factor~~ that guide economic decisions.
(c) Demand tends to be less elastic, if ~~close related~~ substitutes are not available.

Q.2 State whether the following statements are true or false: (1.5 marks)

- (a) Taxation is resorted in order to attain inter-generational equity ~~FALSE~~
(b) Supply elasticity will be more in the long run ~~TRUE~~
(c) "Equilibrium price" is different from "market clearing price" ~~FALSE~~

Q.3 Choose the right alternative: (2 marks)

- (i) Cob-web theory is associated with:
(A) Law of demand (B) Law of supply (C) Engel's law ~~(D) Both law of demand and law of supply working together~~
- (ii) Sugar price increase shifts the supply curve of ice cream because of change in:
~~(A) Productivity (B) Technology (C) Both (A) & (B) (D) None of (A), (B) or (C)~~
- (iii) For a wheat farmer in a competitive market, the price of his product is:
(A) An exogenous variable (B) A qualitative variable ~~(C) A policy variable (D) None of (A), (B) or (C)~~
- (iv) Which one of the following is the odd item in case of a public good:
(A) Non-rivalry
(B) Non-excludability
(C) Always publicly provided
~~(D) None of (A), (B) or (C)~~

Paper ends

Indian Institute of Technology Bombay
Department of Humanities & Social Sciences

HS 101: Economics

Academic Year: 2015-16
Max. Marks: 50

Autumn Semester
End-Term Examination

Date: 17th Nov. 2015
Time: 5:30 PM-8:30PM

Instruction: Read the following instructions carefully. This Question Paper has TWO Parts: Part A and Part B. Note that, **Part A** contains "Subjective Type Questions" on both Micro and Macroeconomics; while **Part B** contains "Objective Type Questions" only on Macroeconomics. Answer both the parts (A & B) in the institute provided answer booklet. You are advised to *maintain the sequence of the question number while answering the objective type questions in Part B*. You must mention your Section and the name of your Instructor on top of the answer booklet.

Part A

**I. Answer any two of the following questions with suitable examples wherever applicable.
(If you answer more than two questions then only the first two will be considered)** [2 × 5 = 10]

- a) Distinguish the equilibrium of a firm operating in a monopolistic competition with that of a firm operating in perfect competition.
- b) Why and how do firms indulge in price discrimination?
- c) Explain price war and its implications
- d) A firm's market power is measured by the following formula $\frac{(P - MC)}{P}$, where P is the price and MC is the marginal cost at the profit maximizing output level. Is this index positive or negative in case of imperfect competition — Explain your answer.

**II. Explain any six of the following: (only the first six answers will be considered, in case you answer more)
[6 × 1.5 = 9]**

- | | |
|------------------------------|--|
| i) Money Multiplier | vi) Sticky Wage |
| ii) Shoe-leather cost | vii) Cash Reserve Ratio |
| iii) Potential GDP | viii) Stagflation <i>Stagnation Defl. inf.</i> |
| iv) Fisher Equation (effect) | ix) Liquidity Trap |
| v) GDP Deflator | |

**III. Answer any two of the following: (only the first two answers will be considered, in case you answer more)
[2 × 4 = 8]**

- a) Efficacy of fiscal policy and crowding out effect.
- b) Open Market Operations and mechanism of monetary expansion.
- c) State and explain the reasons behind negatively sloped Aggregate Demand curve.
- d) Explain the methodology used to construct the Consumer Price Index (CPI).

Part B

[Please maintain the sequence of the questions as given in the question paper while answering Part B]

IV. Multiple Choice Questions:

[$30 \times 0.5 = 15$]

Choose the only alternative that best completes the statement or answers the respective question.

1) GDP is not a perfect measure of social welfare and the society's economic well-being because

- A) GDP accounting rules do not adjust for production that causes negative externalities.
- ~~B)~~ it does not say anything about the distribution of income.
- C) it does not include all economic activities in the economy.
- ~~D)~~ all of the above

2) The Jackson Tool Company manufactures only tools. In 2008 Jackson Tools manufactured 20,000 tools, but sold 21,000 tools. In 2008 Jackson Tools' change in inventory was

- A) 3,000 tools.
- B) -2,000 tools.
- C) 1,000 tools.
- ~~D)~~ -1,000 tools.

Refer to the information provided in Table 1 below to answer the questions [3 and 4] that follow.

Table 1

All Figures in Billions of Dollars			Agg. Expenditure
Aggregate Output	Aggregate Consumption	Planned Investment	
200	300	100	400
400	450	100	600
600	600	100	800
800	750	100	1,000
1,000	900	100	

* 3) Refer to Table 1. At an aggregate output level of \$400 billion, planned expenditure equals

- ~~A)~~ \$550 billion.
- B) \$850 billion.
- ~~C)~~ \$500 billion.
- D) \$450 billion.

* 4) Refer to Table 1. If aggregate output equals _____, there will be a \$100 billion unplanned decrease in inventories.

- A) \$400 billion
- B) \$600 billion
- ~~C)~~ \$200 billion
- D) \$800 billion

200 or 1000

5) If $C = 500 + 0.9Y$ and $I = 400$, then the equilibrium level of income is (assuming $G = 0$)

- A) 1,000
- B) 9,000
- ~~C)~~ 1,800
- D) 900

X - 100

Refer to the information provided in Figure 1 below to answer the questions that follow.

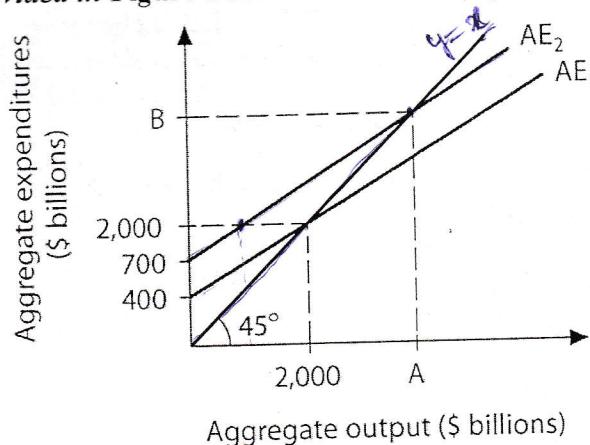


Figure 1

6) Refer to Figure 1. What is the value of output at Point A?

- A) \$7,000 billion.
- B) \$6,000 billion.
- C) \$3,500 billion.
- D) cannot be determined from the given information

7) Refer to Figure 1. If aggregate expenditures are represented by AE_2 and government spending increases by \$20 billion, equilibrium aggregate output increases by \$ _____ billion.

- A) 800
- B) 400
- C) 100
- D) 200

8) You are hired by the Council of Economic Advisors (CEA) as an economic consultant. The chairperson of the CEA tells you that she believes the current unemployment rate is too high. The unemployment rate can be reduced if aggregate output increases. She wants to know what policy to pursue to increase aggregate output by \$300 billion. The best estimate she has for the MPC is .8. Which of the following policies should you recommend?

- A) Increase both government spending and taxes by \$300 billion.
- B) Increase government spending by \$300 billion and reduce taxes by \$300 billion.
- C) Decrease both government spending and taxes by \$300 billion.
- D) Reduce government spending by \$300 billion and increase taxes by \$300 billion.

9) An increase in both consumption and savings must unambiguously imply

- A) increase in transfer payments.
- B) decrease in inflation.
- C) increase in real disposable income.
- D) decrease in real money balance.

10) The money supply has increased from \$1.4 trillion to \$1.45 trillion. Which of the following could have caused this increase?

- A) The central bank of the country (Fed / RBI) sold government securities to the public.
- B) Commercial banks decided to hold back excess reserves.
- C) The Fed increased the discount rate.
- D) Consumers who were holding money outside the banking system deposit this money.

11) Ed's monthly starting balance is \$3,000. Ed spends \$100 per day. Initially, Ed keeps all of his income in a non interest-bearing checking account. Ed decided to change his strategy and at the beginning of each month he deposits one-third of his income into his checking account and buys two bonds with the remainder of his income. After 10 days he cashes in one bond and 10 days after that he cashes in the other bond. Which of the following statements is TRUE?

- A) The second strategy involves lower money management costs because Ed now earns interest on the bonds he has purchased.
- B) If the interest rate paid on bonds decreases, the opportunity cost of Ed's original strategy is reduced.
- C) If Ed uses either strategy; his average monthly balance is \$1,500.
- D) Ed's optimal money balance is \$100.

12) The transactions demand for money is _____

- A) negatively related to the price level
- B) positively related to the interest rate
- C) negatively related to the interest rate and positively related to aggregate income
- D) positively related to income and interest rate.

Refer to the information provided in Figure 2 below to answer the questions that follow.

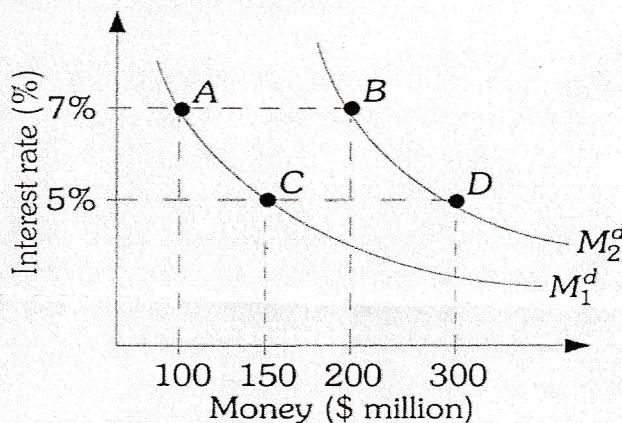


Figure 2

13) Refer to Figure 2. Suppose money demand is currently at Point A. A decrease in the interest rate to 5%, *ceteris paribus*, will likely

- A) increase the quantity of money demanded from \$100 million to \$150 million.
- B) increase the quantity of money demanded from \$100 million to \$200 million.
- C) decrease the quantity of money demanded from \$200 million to \$100 million.
- D) increase the quantity of money demanded from \$150 million to \$300 million.

14) Monetary policy affects the goods market through its effect on

- A) income and money demand.
- B) the interest rate and planned investment.
- C) income and planned investment.
- D) the interest rate and money demand.

agg. demand
int. rate

- 15) Which of the following sequence of events follows an increase in government expenditures? (where AE is aggregate expenditures and Y is output / income)

- A) $AE \uparrow \Rightarrow Y \uparrow \Rightarrow M_d \downarrow \Rightarrow r \uparrow \Rightarrow I \downarrow \times$
- B) $AE \downarrow \Rightarrow Y \uparrow \Rightarrow M_d \downarrow \Rightarrow r \uparrow \Rightarrow I \downarrow \times$
- C) $AE \downarrow \Rightarrow Y \downarrow \Rightarrow M_d \downarrow \Rightarrow r \uparrow \Rightarrow I \uparrow$
- D) $AE \uparrow \Rightarrow Y \uparrow \Rightarrow M_d \uparrow \Rightarrow r \uparrow \Rightarrow I \uparrow$

- 16) Dan, a writer for a business magazine, interviewed managers at 100 large corporations. All of the managers indicated that the primary determinant of planned investment is expected sales and not the interest rate. From this information, Dan concluded that

- * A) neither expansionary nor contractionary fiscal policy would be very effective.
- B) expansionary fiscal policy would be very effective, but expansionary monetary policy would not be very effective.
- C) both expansionary and contractionary monetary policy would be very effective.
- D) contractionary fiscal policy would not be very effective, but contractionary monetary policy would be very effective.

Refer to the information provided in Figure 3 below to answer the questions that follow.

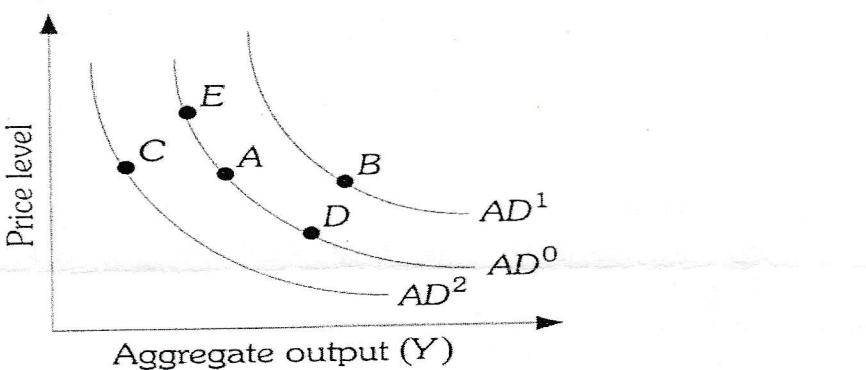


Figure 3

- 17) Refer to Figure 3. Suppose the economy is at Point A, an increase in money demand could cause a movement to Point

- A) E
- B) B
- C) C
- D) D

- 18) The economy's money supply will increase whenever

- A) Commercial banks increase their deposits with central bank. \times
- B) The central bank sells government securities to the public.
- C) Commercial banks increase their demand deposits. \times
- D) None of the above.

- 19) The central bank in every country is a banker to

- A) Commercial Banks in that country.
- B) Households in that country.
- C) Government of the country.
- D) Both (A) and (C).

20) In order to control inflation, central bank may

- A) lower CRR.
- B) sell government securities (gilts) to the commercial banks.
- C) reduce margins on bank loans
- D) all of the above.

control
price rising

21) Real GDP

- A) moves in the same direction as unemployment. X
- B) is not adjusted for inflation. X
- C) also measures real income.
- D) all of the above are correct.

22) When the money supply decreases

- A) interest rate fall and so aggregate demand shifts right.
- B) interest rate fall and so aggregate demand shifts left.
- C) interest rate rise and so aggregate demand shifts right. *
- D) interest rate rises and so aggregate demand shifts left. ~

23) If inflation is higher than expected,

prices rise more than expected
people borrow

- A) creditors (lenders) receive a lower real interest income than they had anticipated.
- B) creditors (lenders) pay a lower real interest rate than they had anticipated.
- C) debtors (borrowers) receive a higher real interest income than they had anticipated.
- D) debtors (borrowers) pay a higher real interest rate than they had anticipated. ~

24) Potential GDP is

- A) always greater than actual GDP
- B) always smaller than actual GDP
- C) equal to nominal GDP adjusted for inflation
- D) none of the above

25) The labor-force participation rate measures the percentage of the

- A) total adult population that is in the labor force.
- B) total adult population that is employed.
- C) labor force that is employed.
- D) labor force that is unemployed.

26) If the government raises government expenditures, in the short run, prices

- A) rise and unemployment falls. —
- B) fall and unemployment rises.
- C) remain same and unemployment rise.
- D) fall and unemployment fall. ~

agg. d ↑
price ↑

27) In the *liquidity preference theory*, if price increases, then the equilibrium interest rate

- A) rises and the aggregate quantity of goods demand rises.
- B) rises and the aggregate quantity of goods demanded falls. —
- C) falls and the aggregate quantity of goods demanded rises. ~
- D) falls and the aggregate quantity of goods demanded falls. —

money preference.
price ↑
interest ?

28) The AD curve will shift to right if

- A) government expenditures are increased in productive activities.
- B) real money balance increases due to a decrease in price level.
- C) autonomous savings increase. ✗
- D) the RBI restricts nominal money supply.

29) Which of the following helps economists avoid double counting in computing of GDP?

- A) Including goods and services produced only within a given area.
- B) Only include transfer payments made by the government and not individuals.
- C) Only include capital purchases by corporations and not by family-owned firms.
- D) Avoiding the use of intermediate goods in calculating GDP.

30) In the *Keynesian Model*, if savings exceed intended investment then

- A) output will rise.
- B) output will remain the same.
- C) output will fall.
- D) savings will increase.

V) Write 'True' if the statement is true and 'False' if the statement is false.

[$16 \times 0.5 = 8$]

1) Competing macroeconomic models may be hard to test because people may change the way they react when economic policies are changed.

2) Inflation can continue indefinitely without any increases in the money supply. T

3) Those who believe that the wage rate does not adjust quickly to clear the labor market are likely to believe that the aggregate supply curve is vertical. T

4) An increase in the supply of money will shift the aggregate demand curve to the right. F T

5) Given a linear consumption function, MPC is always smaller than APC in the Keynesian model. F

* 6) If planned investment is interest insensitive then the monetary policy is most effective. F (Fiscal)

7) Among the assets of commercial banks are demand deposits. T

* 8) If money demand falls, then the interest rate will rise. T

9) A tax cut of \$12 billion will have less effect on the economy than an increase in government purchases of \$12 billion. F

10) The economy is in equilibrium when aggregate output equals consumption spending. F

11) The following is a correct order in a business cycle: recession, trough, peak, expansion. T (fluctuation)

12) A laissez-faire economy is one in which individual people and firms pursue their own self-interest without any central direction or regulation. T

13) The average behavior of consumption expenditure does change fairly regularly with income known as Fisher's law. F

14) The break-even point on the consumption schedule that intersects the 45° line represents the level of disposable income at which there is zero saving. T

15) The fact that higher wealth leads to higher consumption is called the wealth effect. F

16) Keynesian economics deals with long period analysis. T