

**BIM / Fifth Semester / ECO 202: Macro Economics**

*Candidates are required to answer all the questions in their own words as far as practicable.*

**Group "A"**

**Brief Answer Questions:**

[10 × 1 = 10]

1. State the scope of macroeconomics.
2. Define disposable income.
3. Prepare a list of components of expenditure method of computing GDP.
4. Derive foreign trade multiplier.
5. List any four effects of depression phase of business cycle.
6. List out the types of unemployment.
7. Write any two assumptions of Say's Law of Market.
8. What are the components of balance of payments?
9. What are the sources of economic growth?
10. Year 2071/72 is fixed as base year for consumer price index in Nepal. Value of consumer price index in 2072/73 is 109.7. Calculate the rate of inflation.

**Group "B"**

**Short Answer Questions:**

[6 × 5 = 30]

11. Differentiate between comparative macro statics and macro dynamics.
12. Explain the paradox of thrift. Is this paradox applicable in situation of Nepal?
13. Explain the significance of monetary policy in developing countries like Nepal.
14. What is cost push inflation? Explain its causes.
15. How is national output determined in a three sector economy?
16. Given the following data, using income method, calculate (a)  $NDP_{FC}$  (b)  $GDP_{FC}$  (c)  $NNP_{MP}$  and (d)  $NNP_{FC}$ .

Items	Rupees in million
Indirect Taxes	18,000
Subsidies	3,600
Depreciation	3,400
Mixed Income of Self Employed	56,000
Operating Surplus	20,000
Net Factor Income from Abroad	(-)600
Compensation of Employees	48,000

**Group "C"**

**Comprehensive Answer Questions:**

[2 × 10 = 20]

17. Study the following situation and analyze the issues:

Privatization has been the controversial policy of government of Nepal. There is a long debate among economists and politicians that the privatization of public enterprises (PEs) was really



need of country. In one hand privatization reduced the financial and administrative burden of government but in other hand the privatized PEs are not being operated effectively.

Of the 30 privatized public enterprises (PEs), only 11 are currently in operation. Moreover, just five of them are making profits, according a report. The Privatization Act has, however, terms "privatization" the sales of PE property to private sector, share divestment, management handover, liquidation and scrapping. Among the privatized PEs, 11 were scrapped, one was liquidated, shares of 11 were divested and businesses and property of three were sold. Three of them were privatized in the form of sales and leasing of property. The management of a PE was handed over to the private sector.

A reason why only a few privatized PEs are in operation is even the scrapping and liquidation come under privatization. On the other hand, the private sector, which is supposed to operate a factory, failed to do so.

According to the Annual Review of Public Enterprises published by the Finance Ministry, the majorities of privatised PEs have either been closed down or are facing dispute. On one hand, expected results have not come out from the privatization. Closure of many PEs has created negative opinion among the people about privatization. It has raised questions over the attitude of the owners of the privatized PEs, stating the fact that the government had to spend a huge amount for staff salaries even in privatized PEs. According to the report, the government bore a liability of Rs 4.93 billion for 15 privatised PEs over the last several years. The government has admitted its failure to monitor and evaluate the privatized PEs resulted in the failure of the idea of privatization. The government failed to do anything even though businesses were not run as per the conditions set. The report says operators of privatized PEs are pressuring the government to allow them to sell property and do other businesses with the proceeds, which is against the objective of privatization. "That's why there's a need for a mechanism for regular monitoring and evaluation of privatized PEs," the report states. It has also pointed out that the government has failed to ensure that those leasing PE land plots would utilize the property properly.

- a. Identify the modalities that are used in privatization in Nepal? [2]
- b. Do you agree that privatization results positive impact in Nepalese economy? Explain. [4]
- c. Should Nepal accelerate the pace of privatisation or stop it? Explain with proper reason. [4]

18. An economy attains equilibrium when both product market and money market reach equilibrium simultaneously. Government formulates expansionary fiscal policy to increase the economic growth rate. Similarly, central bank implements expansionary monetary policy to support for achieving the government's target. Following equations represent the product market and money market without external sector:

$C = 100 + 0.8Y_d$ , C is consumption,  $Y_d$  is disposable income

$I = 200 - 1080i$ , I is investment, i is rate of interest in %

$G = \text{Rs } 100 \text{ billion}$ , G is government expenditure

$T = 50$ , T is tax,

$M_s = \text{Rs } 250 \text{ billion}$ ,  $M_s$  is money supply

$L_t = 0.5Y$ ,  $L_t$  is transaction money demand

$L_s = 60 - 2500i$ ,  $L_s$  is speculative money demand

- a. Derive equation for product market equilibrium (IS) and money market equilibrium (LM). [4]
- b. Determine simultaneous equilibrium level of income and rate of interest [2]
- c. What will be the effect on equilibrium output and rate of interest when NRB increases money supply by Rs 100 billion and GON increases its planned expenditure by Rs 150 billion? [4]

