

**TRIBHUVAN UNIVERSITY**  
**FACULTY OF MANAGEMENT**  
Office of the Dean  
April 2018

**Full Marks: 60**  
**Time: 3 Hrs.**

**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. Why is macroeconomics also called price theory?
2. List out the types of macroeconomics.
3. Write any four determinants of investment.
4. Write any two implications of Say's Law of Market.
5. Value added method avoids double counting. Why?
6. Write any two differences between economic development and economic growth?
7. Derive government expenditure multiplier.
8. Mathematically derive LM equation.
9. What are the sources of market failure?
10. State the types of budget.

**Group "B"**

**Short Answer Questions:**

**[6 × 5 = 30]**

11. Explain the psychological law of consumption function.
12. Define IS curve. How is it derived?
13. Find the equilibrium level of income in a three sector economy when consumption function (C) =  $134 + 0.9(Y - T)$ , tax function (T) =  $60 + 0.15Y$ , government expenditure (G) = Rs 1100 billion and investment (I) = Rs 700 billion. If autonomous investment increases by Rs 235 billion, what will be the new level of income?
14. 'Phillips curve explains the trade-off between inflation and unemployment'. Justify.
15. What is privatization? Should Nepal continue privatization process? Give your critical comments.
16. What is business cycle? Explain its phases.

**Group "C"**

**Comprehensive Answer Questions:**

**[2 × 10 = 20]**

17. Government of Nepal wants to graduate the country at the middle income status by 2030 and achieve the sustainable development goals by speeding up socio-economic transformation through high, sustained and broad-based inclusive growth. To achieve these targets, Nepal needs double digit growth rate. But 3.8 percent average economic growth rate and 8.9 percent average inflation rate of past decade does not show optimism in achieving the aim of government. The major challenges of economy are: creating employment opportunities, improving investment environment, commercialization of agriculture, developing infrastructure, expanding the size of formal economy, managing the structural problems of economy etc.



Economic activities have expanded in 2016/17 due to favorable monsoon, increase in capital expenditure, energy management, and improvement in investment environment including overall supply situation. As a result, economy has achieved 6.9 percent economic growth rate and inflation rate has remained 4.6 percent which are favorable than last few years. It would be easier to achieve the goal of economic prosperity if the existing situation of high economic growth, low inflation, adequate foreign exchange reserve and resource availability of 2016/17 could be sustained and employment could be generated through effective monetary policy and fiscal policy.

In the above mentioned situation of economy of Nepal, analyze the following issues:

- a) What types of monetary policy and fiscal policy should Nepal adopt to achieve the high economic growth rate? Explain with the appropriate policy tools. [4+4]
- b) High growth rate and low inflation goals contradict each other. How should Nepal resolve the contradiction? [2]

18. Following table shows a hypothetical figures of national income account:

Description	Rs. in billion
Payment to abroad	9
Subsidy	17
Receipt from abroad	33
Rental income	39
Net interest	42
Retained earning —	52
Mixed income	63
Corporate profit tax	78
Proprietor's income	98
Change in inventory	157
Government investment expenditure	191
Export	220
Dividend	278
Indirect tax	285
Government consumption expenditure	294
Net fixed capital formation	522
Gross fixed capital formation	600
Import	950
Compensation of Employees	1266
Private consumption expenditure	1750

- a) Calculate  $GNP_{MP}$  by income and expenditure method from above hypothetical figures of national income account. [6]
- b) Differentiate between real GDP and nominal GDP. [4]

