Macroeconomics, Term 2, 2018.

IFMR.

Instructor: Sumit Mishra

Assignment # 2
Due on Sunday, September 30 at 11.59pm (as PDF).

- You should work in groups (≤ 3 people) on this assignment.

- Each group turns in one PDF file.

- Put each member's name and roll number on the top left of the first page of the submission.

- Plagiarized content will receive a zero.

1 (**10 points**) Issues in the Measurement of GDP In Chapter 3 of her book *The Value of Everything*, Mariana Mazzucato takes the GDP measurement to task. Summarize Mazzucato's position (**50 words**). Propose a solution that addresses some of the concerns that Mazzucato raises (**50 words**).

2 (**5 points**) Demonetization and Money Multiplier In today's lecture, we discussed the impact of demonetization on money supply. Extend that argument, and theoretically show how money multiplier shifts because of demonetization.

3 (**10 points**) Consider an economy with the following components of its GDP:

$$C = c_0 + c_1 Y_D$$

$$T = t_0 + t_1 Y$$

$$Y_D = Y - T$$

a (**2 points**) Solve for equilibrium output.

b (**3 points**) What is the multiplier? Does the economy respond more to changes in autonomous spending when $t_1 = 0$ or when $t_1 > 0$? Explain.

c (**5 points**) Why is fiscal policy in this case called an automatic stabilizer?