



VIT

Vellore Institute of Technology
(Deemed to be University under section 3 of UGC Act, 1956)
CHENNAI

Reg. Number: 22 BCE 1138

Continuous Assessment Test (CAT) – II OCTOBER 2025

Programme	:	B.Tech	Semester	:	Fall 2025-26
Course Code & Course Title	:	BHUM104L- Macroeconomics	Class Number	:	CH2025260101065
Faculty	:	Dr. Shahin Khan	Slot	:	C2+TC2
Duration	:	90 Minutes	Max. Mark	:	50 Marks

General Instructions:

- Write only your registration number on the question paper in the box provided and do not write other information
- Use statistical tables supplied from the exam cell as necessary
- Use graph sheets supplied from the exam cell as necessary
- Only non-programmable calculator without storage is permitted

Answer all questions

Q. No	Sub Sec.	Description	Marks	CO	BT Level
1.		<p>A household earns ₹50,000 per month. When the government announces a new subsidy of ₹5,000 on essential food items, the family increases their consumption expenditure by ₹3,000 and saves the remaining ₹2,000.</p> <ul style="list-style-type: none"> • Based on this case, explain the meaning of consumption and identify its components. (2 Marks) • What determinant of consumption is primarily at play here? (2 Marks) • Using the consumption function, calculate the marginal propensity to consume (MPC) and marginal propensity to save (MPS). (6 Marks) 	10	CO1	BT1
2.		<p>A pharmaceutical company plans to expand production. The current rate of interest is 8%, and expected return on new investment is 12%. Due to inflationary pressures, the interest rate is later increased to 10%.</p> <ul style="list-style-type: none"> • Define investment and its components. (2 Marks) • What determinants of investment are influencing the company's decision? (2Marks) • Apply the investment function to explain whether the company will go ahead with its expansion under both interest rate conditions.(6 Marks) 	10	CO2	BT2

3.		<p>A government introduces a ₹100 crore infrastructure project in a developing economy. As a result, household income and consumption rise sharply, and private companies begin to invest more in machinery to meet the growing demand.</p> <ul style="list-style-type: none"> • Explain the working of the multiplier in this situation. • Show how the accelerator principle comes into play for private investment. • Combine both concepts to demonstrate the idea of a super multiplier in this case. 	10	CO3	BT3
4.		<p>In 2023, a country experiences falling unemployment rates but steadily rising inflation. Policymakers argue whether to control inflation or allow some inflation to reduce unemployment. Later, workers begin expecting higher inflation in wage negotiations, causing the unemployment rate to rise again despite continued inflation.</p> <ul style="list-style-type: none"> • Using the Phillips Curve, explain the short-run trade-off between inflation and unemployment. • How does the concept of the long-run Phillips curve alter this trade-off? • Discuss the role of inflation expectations and rational expectations in shaping outcomes. 	10	CO4	BT4
5.		<p>During a global recession, prices of goods in Country X continuously fall for two years. Consumers delay their purchases, firms cut down production, and unemployment rises sharply.</p> <ul style="list-style-type: none"> • Define deflation and its causes. • Using this case, explain the consequences of deflation on households, businesses, and the overall economy. • Suggest two policy measures the government could take to counteract the problem. 	10	CO4	BT4

*****All the best *****