

Minor 1

Course: MSL 720 "Macroeconomic Environment of Business"

Time: 60 Minutes

Maximum Marks: 20

Instructions:

Question paper consists of two parts. Part I consists of multiple choice questions where each question carries 1 mark. All the questions are compulsory in part I. In Part II you have to answer any **TWO** of the three subjective questions. Each question carries 5 marks. **Draw neatly labeled graphs where necessary** otherwise your marks will be lower.

PART I

1. Broad money (M3) stock includes:

- a. Currency with public excluding that with commercial banks
- b. Currency with public plus currency with commercial banks
- c. Currency with public plus currency with banks and government
- d. Currency with public plus currency with banks and deposits of commercial banks with central bank

2. According to the classical dichotomy, when the money supply doubles which of the following doubles?

- a. the price level and nominal GDP
- b. the price level and real GDP
- c. only real GDP
- d. only the price level

3. Potential GDP is the value of GDP that can be calculated if we assume that

- a. There are no measurement errors
- b. The unemployment rate is zero
- c. The inflation rate is zero

all None of above

5. What basket of goods and services is used to construct the CPI?
- a random sample of all goods and services produced in the economy
 - the goods and services that are typically bought by consumers as determined by government surveys
 - only food, clothing, transportation, entertainment, and education
 - the least expensive and the most expensive goods and services in each major category of consumer expenditures
6. Martin, a U.S. citizen, travels to Mexico and buys a newly manufactured motorcycle made there. His purchase is included in
- both Mexican GDP and U.S. GDP.
 - Mexican GDP, but it is not included in U.S. GDP.
 - U.S. GDP, but it is not included in Mexican GDP.
 - neither Mexican GDP nor U.S. GDP.
7. Over time, people have come to rely more on market-produced goods and services and less on goods and services they produce for themselves. For example, busy people with high incomes, rather than cleaning their own houses, hire people to clean their houses. By itself, this change has
- caused measured GDP to fall.
 - not caused any change in measured GDP.
 - caused measured GDP to rise.
 - probably changed measured GDP, but in an uncertain direction; the direction of the change depends on the difference in the quality of the cleaning that has resulted.
8. Today, international cricket stars can earn more than 400 times as much as Don Bradman earned in 1931. However, prices have also risen since 1931. We can conclude that
- The best cricketers today are about 400 times better off than Bradman was in 1931.
 - Because prices have also risen, the standard of living of cricket stars hasn't changed since 1931.
 - One cannot make judgments about changes in the standard of living based on changes in prices and changes in incomes.
 - One cannot determine whether cricket stars today enjoy a higher standard of living than Bradman did in 1931 without additional information regarding increases in prices since 1931.

10. Assume an economy with no foreign sector, a marginal propensity to consume, $mpc = 0.9$, and income tax rate of $t = 1/3$. If government transfer payments decrease by 200 when other factors remain unchanged, which of the following is true?

- a. National income will decrease by 450
- b. Income tax revenues will decrease by 150
- c. The budget surplus will increase by 50
- d. All of the above

PART II

1. Consider a model of goods market with government and external sectors.

- 1.1. Explain how the equilibrium is reached in the goods market.
- 1.2. With the help of above model explain the impact of reduction in tax rates - as announced by the Finance Minister in this year's budget- on equilibrium income.

3+2 Marks

2. Suppose you are a consultant to Greek government advising it on sustainability of its debt to GDP ratio. What factors would you cite as most important? What are the pros and cons of government's austerity measures?

5 Marks

3. What were the reasons which led to adaptation of fiat money system from a system based on metal coins? What are the conditions which are required for a well-functioning fiat money system?

3+2 Marks