

**FACULTY OF COMMERCE AND MANAGEMENT**  
**SECOND YEAR FIRST SEMESTER EXAMINATION IN BBA IN HONS**  
**/BCOM IN HONS (2020/2021)**  
**(PROPER/REPEAT [FEBRUARY/ MARCH 2023])**  
**ECN 2023 Macroeconomics**

Answer all Questions

Time: Three Hours

**Calculator is Permitted**  
**Part I**

**I Choose the Correct Answer**

1. Which of the following is defined as the study of economy as a whole?
  1. Microeconomics
  2. Income and employment.
  3. Macroeconomics
  4. None of the above
  
2. What items are not included in the money supply?
  1. Currency and coins with the public
  2. Other deposits with Central Bank
  3. Inter-bank deposits
  4. Net demand deposit with banks
  
3. Which of the following tool is used by the Central Bank to control the quantity of money in an economy?
  1. Fiscal policy
  2. Monetary policy
  3. Growth or supply-side policies
  4. Exchange rate policy
  
4. During the period of inflation, tax rate should:
  1. Increase
  2. Remain constant
  3. Decrease
  4. Fluctuate
  
5. When aggregate economic activity is increasing, the economy is said to be in
  1. An expansion
  2. A peak.
  3. A contraction
  4. A turning point.

6. The average number of times that a dollar is spent in buying the total amount of final goods and services produced during a given time period is known as

- |                           |                            |
|---------------------------|----------------------------|
| 1. The money multiplier   | 3. Velocity                |
| 2. Gross national product | 4. The spending multiplier |

7. Which of these are the limitations for barter system?

- |   |                        |
|---|------------------------|
| 1. Lack of standard of deferred payment | 3. Lack of store value |
| 2. Lack of double coincidence of wants  | 4. All of these above  |

8. The expenditure multiplier is the ratio of

- |   |  |
|---|--|
| 1. The change in the money supply to a change in the autonomous expenditure   | 3. The change in equilibrium output to a change in the monetary base |
| 2. The change in equilibrium output to a change in the autonomous expenditure | 4. The change in the money supply to a change in the monetary base   |

9. Meaning of disposable income

- |   |  |
|---|--|
| 1. The amount of money we put in the bank.  | 3. The income after paying taxes               |
| 2. The money we have before taxes are paid. | 4. The amount of money we spend on consumption |

10. Which of the following is a determinant of non-economic factor of economic growth?

- |                           |                      |
|---------------------------|----------------------|
| 1. Capital                | 3. Natural resources |
| 2. Favourable legislation | 4. None of the above |

(10 \* 2 = 20 Marks)

## Part II

2.

- a. Define the term "Macroeconomics". (03 Marks)
- b. What are the three main goals of macroeconomics? (03 Marks)
- c. Explain the two-sector model income circular flow using diagram. (04 Marks)
- d. Define the term money and list out the importance of money in modern economy.

(05 Marks)

**(Total 15 Marks)**

3.

- a. Explain two determinants of investment in an economy. (02 Marks)
- b. Life Cycle model of a typical consumer having the following expectations:

Worker's current age	35
Life expectancy (age at death)	75
Expects to work until age	65
Expected annual average income while working	\$36,000

Calculating the following

- i. Lifetime income of the individual
- ii. Period for earning income
- iii. Average consumption throughout his life expectancy

(03 Marks)

- c. Briefly explain any of four determinants of Consumption. (04 Marks)

- d. **When consumption does not decrease in proportion to the decrease in income, then APC rises and MPC falls called Ratchet effect in consumption behaviour.** Explain the **Ratchet effect** using a diagram and justify the APC rises and MPC falls.

(06 Marks)

**(Total 15 Marks)**

4.

a. Briefly explain the Economic Growth of a country.

(03 Marks)

b.  $C = 100 + 0.8Y_d$ ,

$I = 50 - 25i$ ,

$M^s/p = 200$ ,

$M^d = Y - 25i$

i. Derive the IS Curve.

ii. Derive the LM Curve.

iii. Calculate the equilibrium level of output and interest.

(04 Marks)

c. Explain the determinants of money supply in an economy.

(04 Marks)

d. List out the two suggestions of Harrod Domar for the rate of economic growth and explain the importance of Harrod Domar Model of economic growth in and economy.

(04 Marks)

**(Total 15 Marks)**

5.

a. What is meant by Business cycle and briefly explain need for controlling business cycle.

(03 Marks)

b. "Commercial banks play a major role in economic development of their countries", state the role of a Commercial Bank in the economic development of a country?

(06 Marks)

c. Briefly explain the following

i. Frictional Unemployment

ii. Trade Deficit

iii. Impact of Tax

(3\*2= 06 Marks)

**(Total 15 Marks)**

## II Fill the blanks with the correct answer

1. The aggregate production function for the Solow growth model assumes .....returns to scale and ..... marginal productivity of labour and capital.
2. The tax imposed on import and export of commodities is known as .....
3. IS-LM model represents the .....equilibrium of the economy.
4. The term ..... mean, a decline in real GDP that continues for at least two successive quarters.
5. The equilibrium condition of the four-sector model is .....

(5 \* 2 = 10 Marks)

### c. Find True or False

1. The function medium of exchange is as an intermediate in the exchange for goods and services.
2. Keynesian economics is a macroeconomic theory of total spending in the economy and its effects on inflation, employment, and output.
3. Say's Law states the ability to purchase something depends on the ability to produce and thereby generate income.
4. In the economic expansion stage, there is a decrease in positive economic indicators such as employment, income, output, wages, profits, demand, and supply of goods and services.
5. Neoclassical economics integrates the cost of production theory from classical economics with the concepts of utility maximization and marginalism.

(5 \* 2 = 10 Marks)