Introductory Macroeconomics

1. State True or False. Explain. (4)

a) There is unemployment in the economy because domestic industries are facing stiff competition from foreign companies. Hence, government has decided to levy import tariff on foreign products. This action is likely to be opposed by classical economists & supported by Keynesian Economists.

b) Services provided by the government are not sold in market, hence it is difficult to know their market value & as a result, it should not be added in GDP.

c) Suppose you have deposited ₹10,000 in your Bank Account. Since you are creating asset for the economy, it should lead to increase in national wealth.

d) Prices have increased across 2000-2010. Taking 2010 as the Base year, the GDP Deflator would be higher in 2010 as compared to 2000.

2. Explain the "Uses-of-Saving" Identity. (3)

3. (3)

Gross Private Domestic Investment = 40
Govt. purchases of goods & services = 30
Gross national Product (GNP) = 200
Current Account Balance = -20
Taxes = 60
Govt. transfer Payments to the domestic Pvt. Sector = 25
Interest Payments from the Govt. to the domestic Pvt. Sector = 15
Factor Income Received from rest of world = 7
Factor Payments made to rest of world = 9

Find the following, assuming that Govt. Investment is zero.

a). Consumption 150

b) Net Exports −18

c) GDP 202

d) Net Factor Payments from abroad. −2

e) Private Saving 30

f) Government Saving −10

g) National Saving. 20

4. Suppose the Public holds no currency. The ratio of reserves to deposits is 0.1. The demand for money is given by $M^d = \$Y(0.8 - 4i)$. Initially the monetary base is $100 Billion & nominal income is $5 Trillion.

a) What is the demand for central bank Money?

b) What is the equilibrium interest rate?

c) What is the overall supply of money?

d) What is the impact on interest rate if Central Bank Money is increased to $300 Billion. ⑥

②

5. Derive the Money Multiplier. ②

6. Explain the LM Relation.