

**BACHELOR OF ARTS EXAMINATION, 2023**

(1st Year, 2nd Semester)

**ECONOMICS****[ INTRODUCTORY MACROECONOMICS ]**

Time : Two Hours

Full Marks : 30

**Answer question number 1 and any two from the rest.**

1. State and justify whether the following statements are true, false or uncertain.  
(Any 5) 5 x 2 = 10
  - a) Suppose a home maker enters the workforce, taking a job that will pay \$20,000 over the year. The homemaker must pay \$8000 over the year for professional child care services. Then GDP should increase by \$28000.
  - b) Say  $Y = \$10,000$  billion,  $C = \$6000$  bn,  $T = \$1500$  bn,  $G = \$1700$  bn and  $I = 3300 - 100r$  where symbols have their usual meanings. Given the above information, investment should be \$1300 bn and  $r = 10\%$ .
  - c) Frictional unemployment occurs when labour supply is more than labour demand.
  - d) Government budget deficit causes investments to decline.
  - e) Hyperinflations begin when the government has inadequate tax revenue to pay for its spending.
  - f) If a country has a low rate of inflation relative to the United States, a dollar will buy an increasing amount of the foreign currency over time.
  
2. a) Suppose country A is a small open economy. Starting from a balanced trade situation, what will be the effects of i) a domestic expansionary fiscal policy and ii) a foreign expansionary fiscal policy on country A's national savings, investment and trade balance?  
 b) Assume that the reserve requirement is 5%. All other things equal, will the money supply expand more if the Fed buys \$2000 worth of bonds or if someone deposits \$2000 in a bank that he had hidden away? How much more money supply does it create, if any of the above actions create more? 6 + 4 = 10
  
3. a) The 2008 worldwide recession had led to pessimism among the investors about the economy. How do you think this would affect the overall macro economy? Explain the short run and long run adjustment mechanism of output and price level using the sticky wage model.  
 b) Who pays inflation tax?  
 c) What do you mean by catch up effect? 6+2+2 = 10
  
4. a) Consider the following figures of national income aggregates and compute GNP at market prices by income and expenditure methods. Also calculate, personal income, personal disposable income and personal savings.

[ Turn over

SN	Description	Amount \$'000
1-	Personal consumption expenditure	11943
2-	Net fixed investment	1671
3-	Change in private inventories	-3
4-	Exports	1048
5-	Imports	1540
6-	Government investment	757
7-	Compensation of employees	9186
8-	Proprietor's income	946
9-	Rental income	264
10-	Net interest	682
11-	corporate profit	2059
12-	Depreciation	708
13-	Indirect taxes	739
14-	Corporate dividends	459
15-	Social insurance payments	1000
16-	Current transfers	3182
17-	Personal taxes	413

b) Can money supply be a function of the rate of interest?

c) What are the costs of inflation?

$$6 + 2 + 2 = 10$$