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ECO403

Final Term Examination – Spring 2006

Time Allowed: 150 Minutes

Question No. 1 **Marks : 1**

A simultaneous Rs.10 million increase in both taxes and govt. spending will have no net effect on aggregate demand.

1. T
2. F

Question No. 2 **Marks : 3**

What four policies could be adopted to encourage the technological progress?

Question No. 3 **Marks : 3**

The relationship between MPL and labor unit is:

1. Positive
2. Negative
3. No relationship
4. Vertical

Question No. 4 **Marks : 1**

The _____is an accumulation of all past annual deficits

Question No. 5 **Marks : 1**

The consumption of individuals in the aggregate tends to vary:

1. More than income
2. Less then income
3. Equal to income
4. Unrelated to income

Question No. 6 **Marks : 1**

A recessionary gap exists when:

1. Aggregate demand exceeds aggregate supply
2. Aggregate demand exceeds potential output
3. Aggregate supply exceeds aggregate demand
4. Potential output exceeds aggregate demand.

Question No. 7 **Marks : 1**

At any given value of exchange rate ‘e’, a tariff or quota will not affect net exports.

1. T
2. F

Question No. 8 **Marks : 1**

Why the CPI may over estate inflation?

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Question No. 9 **Marks : 1**

A doctrine that states that goods must sell at the same currency-adjusted price in all countries is called_____.

Question No. 10 **Marks : 3**

The budget deficit or surplus:

1. Is well defined and straightforward to measure.
2. Is well defined but frequently distorted by creative but improper accounting practices.
3. Is difficult to measure and can be defined legitimately in several ways.
4. Is so arbitrarily defined that it is meaningless.

Question No. 11 **Marks : 3**

Philips curve shows the relationship between population and inflation rate.

1. T
2. F

Question No. 12 **Marks : 10**

Investment is the most volatile components of:

1. GDP
2. GNP
3. Personal income
4. Disposable income

Question No. 13 **Marks : 1**

Automatic stabilizers refer to:

1. Inherent stock market mechanisms that automatically cause stock market gains to be cancelled out by losses, which make expected long-run returns equal to zero.
2. Invisible hand mechanisms to automatically bring the economy out of a recession.
3. Government revenue and expenditure items that change automatically in response to changes in economic activity.
4. Discretionary monetary policy maneuvers designed to keep inflation automatically under control.

Question No. 14 **Marks : 1**

The multiplier effect exists because:

1. Production and expenditure are interdependent.
2. when one person increases expenditure every one increases expenditure
3. Production and expenditure are independent
4. Production causes expenditures.

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Question No. 15 **Marks : 1**

_____is the stock of assets that can be readily used to make transactions.

Question No. 16 **Marks : 1**

A change in the wage rate has a substitution and an income effect associated with it. Which of the following statements is associated with the income effect?

1. People with higher incomes will spend some of it on leisure by working less.
2. A higher wage rate makes work more attractive relative to leisure and other non market activities.
3. When wages rise, people will tend to work more.
4. As wages rise, the opportunity cost of leisure declines.

Question No. 17 **Marks : 1**

Favorable _____lower costs and prices.

Question No. 18 **Marks : 10**

The Solow growth model shows that lower investment leads to

1. A higher steady state
2. A lower steady state
3. Constant steady state
4. None of the given options.

Question No. 19 **Marks : 1**

How fiscal and monetary policy can affect macro economic variables, use the IS-LM model to analyze the effects of these policies.

Question No. 20 **Marks : 1**

In the short run an increase in saving might:

1. Raise aggregate demand increasing investment
2. Raise aggregate demand by increasing consumption
3. Reduce aggregate demand by reducing investment
4. Reduce aggregate demand by reducing consumption

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Question No. 21 **Marks : 1**

Policymakers can affect macroeconomic variables with

1. Fiscal policy
2. Monetary policy
3. With both monetary and fiscal policy
4. Non of the given options

Question No. 22 **Marks : 1**

How would a tax cut and budget deficit affect the economy and the economic well-being of the country?

Que on No. 23 **Marks : 1**

_____is the average rate of unemployment around which the economy fluctuates.

Question No. 24 **Marks : 1**

The value of final goods and services measured at current prices is called nominal GDP.

1. True
2. False

Question No. 25 **Marks : 3**

According to the modern theory of inflation prices are flexible and market clear.

1. True
2. False

Question No. 26 **Marks : 1**

How will you define business cycles?

Question No. 27 **Marks : 1**

The Philips curve states that inflation rate depends on:

1. Expected inflation
2. Money supply
3. Employment level
4. All of the given options

Question No. 28 **Marks : 1**

Keynes conjectured that the marginal propensity to consume is:

1. Zero
2. One
3. In between zero and one
4. Negative

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Question No. 29 **Marks : 1**

From where the demand for loanable funds comes, and on which thing it depends?

Question No. 30 **Marks : 1**

Each firm hires labor up to the level where:

1. MPL = W/P
2. MPL > W/P
3. MPL < W/p
4. None of the given options

Question No. 31 **Marks :1**

For each unit of capital a firm earns real revenue R/P and bears real cost (PK/P)(r +d).Firm needs your help in making decision whether to increase or decrease capital stock? (5)

b)Explain why investment depends on the real interest rate?(5)

Question No. 32 **Marks : 1**

GDP deflator is a measure of the economy's:

1. Rate of inflation
2. Nominal GDP
3. Stock market level
4. Real GDP

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