

	<b>FINALTERM EXAMINATION</b> SPRING 2007 ECO403 - MACROECONOMICS (Session - 4 )	Marks: 60 Time: 150min
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Exam Date: Wednesday, July 04, 2007

**INSTRUCTIONS:**

**Please read the following instructions carefully before attempting any question:**

- All questions are compulsory.
- This exam consists of 15 Multiple Choice Questions (MCQ's) carrying 1 mark each, 5 fill in the blanks carrying 1 mark each, 5 true false carrying 1 mark each, 3 Short questions carrying 5 marks each and 2 Descriptive questions carrying 10 marks.
- You are required to show all the working of short questions as well as Descriptive question.
- This examination is closed book, closed notes, closed neighbors.
- Do not ask any question about the contents of this examination from anyone.
- You may wish to pace yourself with your own watch, but the Supervisor will be the official timekeeper of the test.
- Failure to comply with the Supervisor's directions will result in your test being cancelled. Please comply with supervisor's directions to avoid any unpleasant event.

- Use of mobile phone is strictly prohibited. It must be "switched off" if it is in your custody.

For Teacher's use only											
Question Marks	1	2	3	4	5	6	7	8	9	10	Total
Question Marks	11	12	13	14	15	16	17	18	19	20	
Question Marks	21	22	23	24	25	26	27	28	29	30	

Question No: 1 ( Marks: 1 ) - Please choose one

**Scarcity can best be defined as a situation in which:**

- ? There are no buyers willing to purchase what sellers have produced.
- ? There is more than enough money to satisfy consumers' wants.
- ? Resources are limited in quantity and can be used in different ways.
- ? There are not enough goods to satisfy all of the buyers' demand.

Question No: 2 ( Marks: 1 ) - Please choose one

**In the circular flow diagram, firms \_\_\_\_\_ inputs and households \_\_\_\_\_ products.**

- ? Supply; Demand
- ? Demand; supply
- ? Supply; supply
- ? Demand ; demand

Question No: 3 ( Marks: 1 ) - Please choose one

**Gross domestic product measured in terms of the prices of a fixed, or base, year is:**

- ? Base GDP.
- ? Current GDP.
- ? Real GDP.
- ? Nominal GDP.

Question No: 4 ( Marks: 1 ) - Please choose one

**The number of people unemployed equals:**

- ? The number of people employed minus the labor force.
- ? The labor force plus the number of people employed.
- ? The number of people employed divided by the labor force.
- ? The labor force minus the number of people employed.

Question No: 5 ( Marks: 1 ) - Please choose one

**Keeping in mind the functions of money, which one of the following is not money?**

- ? Currency
- ? Checks
- ? Credit cards
- ? Time deposits

Question No: 6 ( Marks: 1 ) - Please choose one

**Which of the following would not be included in M2?**

- ? Demand deposits

- ? Checking accounts
- ? Money market accounts
- ? None of the given options

Question No: 7 ( Marks: 1 ) - Please choose one

**The relationship between consumer spending and income is known as the:**

- ? 45-degree line.
- ? Consumption function.
- ? Investment function.
- ? Consumer price index.

Question No: 8 ( Marks: 1 ) - Please choose one

**All of the following statements about the marginal product of capital MPK are true EXCEPT:**

- ?  $MPK = f(k + 1) - f(k)$ .
- ? MPK tends to decline as k increases.
- ? When there is only a little capital, MPK is very small.
- ? MPK is equal to the slope of the production function  $y = f(k)$ .

Question No: 9 ( Marks: 1 ) - Please choose one

**A rightward shift in the aggregate demand curve can be caused by:**

- ? An increase in government spending.
- ? An increase in money supply.

? A decrease in taxes.

? All of the given options.

Question No: 10 ( Marks: 1 ) - Please choose one

**The aggregate supply curve in the short run is different from the aggregate supply curve in the long run due to:**

? The recurring nature of supply shocks.

? The existence of sticky prices in the short run.

? The wealth effect.

? The crowding out effect.

Question No: 11 ( Marks: 1 ) - Please choose one

**Fiscal policy shifts the:**

? The short run aggregate supply curve.

? The long run aggregate supply curve.

? Full employment level of output.

? The aggregate demand curve.

Question No: 12 ( Marks: 1 ) - Please choose one

**If wages are sticky downward, an increase in labor:**

? Demand increases the wage rate.

? Demand decreases the wage rate.

? Supply increases the wage rate.

? None of the given options.

Question No: 13 ( Marks: 1 ) - Please choose one

**Which of the following would a macroeconomist consider as investment?**

? Julie buys a government bond.

? Fred purchases 100 shares of stock in Microsoft.

? Tom buys a new tractor for his farm.

? Jane buys a new car.

Question No: 14 ( Marks: 1 ) - Please choose one

**The nominal interest rate is:**

? Unadjusted for the effects of inflation.

? The interest rate quoted in financial markets.

? Both unadjusted for the effects of inflation and the interest rate quoted in financial markets.

? None of the given options.

Question No: 15 ( Marks: 1 ) - Please choose one

**If interest rates increase, people will most likely hold:**

? More bonds and less cash.

? Less bonds and less cash.

? More bonds and more cash.

☐ Less bonds and more cash.

Question No: 16 ( Marks: 1 ) - Please choose one

Intermediate goods are counted in the calculation of GDP.

☐ True

☐ False

Question No: 17 ( Marks: 1 ) - Please choose one

Structural unemployment is the unemployment resulting from real wage rigidity and job rationing.

☐ True

☐ False

Question No: 18 ( Marks: 1 ) - Please choose one

As income rises, average propensity to consume (APC) falls.

☐ True

☐ False

Question No: 19 ( Marks: 1 ) - Please choose one

Adaptive expectation is an approach that assumes that people base their expectations on all available information, including information about current and prospective future policies.

☐ True

☐ False

Question No: 20 ( Marks: 1 ) - Please choose one

The deposits that banks have received but have not lent out are called banks investments.

? True

? False

Question No: 21 ( Marks: 1 )

To compute the total value of different goods and services, the national income accounts use \_\_\_\_\_.

Question No: 22 ( Marks: 1 )

Monetary policy is conducted by country's \_\_\_\_\_.

Question No: 23 ( Marks: 1 )

\_\_\_\_\_ is a graph of all combinations of interest rate and income that results in goods market equilibrium.

Question No: 24 ( Marks: 1 )

Full-employment output does not depend on the price level, so the long run aggregate supply (LRAS) curve is \_\_\_\_\_.

Question No: 25 ( Marks: 1 )

Economists decompose the impact of an increase in the real interest rate on consumption into two effects: an income effect and a \_\_\_\_\_.

Question No: 26 ( Marks: 5 )

**Define hyperinflation. What causes hyperinflation? Also explain briefly why government creates hyperinflation.**

Question No: 27 ( Marks: 5 )

**What are the advantages of floating exchange rates and fixed exchange rates?**

Question No: 28 ( Marks: 5 )

**Define budget deficit and government debt. Also write down the major components of government debt.**

Question No: 29 ( Marks: 10 )



**Discuss the policies to promote economic growth.**

Question No: 30 ( Marks: 10 )

**Explain Milton Friedman's permanent income hypothesis.**

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