

<b>FINALTERM EXAMINATION</b>		
<b>SPRING 2007</b>		Marks: 60
<b>ECO403 - MACROECONOMICS (Session - 4 )</b>		Time: 150min
StudentID/LoginID:	<hr/>	
Student Name:	<hr/>	
Center Name/Code:	<hr/>	
Exam Date:	Wednesday, July 04, 2007	
<b>INSTRUCTIONS:</b>		
<b>Please read the following instructions carefully before attempting any question:</b>		
<ul style="list-style-type: none"><li>• All questions are compulsory.</li><li>• 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.</li><li>• You are required to show all the working of short questions as well as Descriptive question.</li><li>• This examination is closed book, closed notes, closed neighbors.</li><li>• Do not ask any question about the contents of this examination from anyone.</li><li>• You may wish to pace yourself with your own watch, but the Supervisor will be the official timekeeper of the test.</li><li>• 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.</li></ul>		

- 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 Marks											

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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