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**PRESIDENCY UNIVERSITY  
BENGALURU**

**SCHOOL OF COMMERCE**

**MIDTERM EXAMINATION**

**Winter Semester:**

**Course Code:** BSE 1008

**Course Name:** Applied Macroeconomics

**Program & Sem:** B.Sc. Economics

**Date:**

**Time:**

**Max Marks:** 50

**Weightage: %:** 25%

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**Instructions:**

(i) Read the all questions carefully and answer accordingly.

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**Part A [Memory Recall Questions]**

**Answer all the Questions. Each question carries ONE mark. (10Qx 1M=10M)**

1. While computing GDP using Expenditure method, 'Gross Domestic Capital Formation' (GDCF) is included. Which among the following items is not included in calculating GDCF?  
(a) Investment in Government school projects (b) Change in inventory (c) Depreciation (d) Variable investment for construction of residential houses  
[CO-01 Knowledge Level]
2. This type of income comprises of productive/unproductive sources of income by the private individuals and also the earnings retained by the corporate houses. Mention the additions and deductions to such type of income?  
[CO-01 Knowledge Level]
3. A situation in which the free market leads to misallocation of society's scarce resources in the sense that there is either over production or under production of particular goods and services leading to a less than optimal outcome. This situation is called as \_\_\_\_\_  
[CO-02 Knowledge Level]
4. Spillover effect or third party effect where originator imposes cost or benefit on other who are not responsible for initiating the effect. What is this concept called as?  
[CO-02 Knowledge Level]
5. The office of the Economic Advisor compiles and produces an index for the purpose of measuring inflation. That particular index doesn't comprise of which of the following items:  
(a) Primary Articles (b) Postal Services (c) Intermediate products (d) Power & Fuel  
[CO-01 Knowledge Level]
6. Considering the four features of public goods, cinema and club goods are combination of which two features?  
[CO-02 Knowledge Level]

7. It is a good indicator of economic growth that is valued at pre-determined base price. Name the indicator and state how it is derived. [CO-01 Knowledge Level]

8. A method of measuring national income from distribution side sums up the income of all individuals of a country. State the factor which is not included while computing such income.

(a) Corporate Income Tax (b) Corporate Profit Tax (c) Corporate Dividends (d) Corporate undistributed profits [CO-01 Knowledge Level]

9. The cost of transportation increases when the oil importing countries increase the petrol and diesel prices. This kind of increasing prices leads to which type of inflation? [CO-01 Knowledge Level]

10. The term given to the cost of factors of production is called as Factor Cost. Which of the following items is included in such type of cost?

(a) Taxes paid to the government (b) Profit margin (c) Both (a) & (b) (d) None of these [CO-01 Knowledge Level]

### **Part B [Thought Provoking Questions]**

**Answer all the Questions. Each question carries FIVE marks. (5Qx5M=25M)**

11. The Monetary Policy Committee meets at least four times a year to assess the economic and monetary conditions of the economy so as to curb the rise in prices. Such increase in prices can be attributed to several reasons like rise in demand, import price shock etc. Given the background, compare and contrast between two important indicators of measuring increase in prices in India.

[CO-01 Comprehension Level]

12. Identify the reasons for market failure.

a). An investor choosing a particular company based on nothing but a friend's suggestion.

b). When a buyer chooses a second hand car without considering its defects and possible future outcomes.

c). Negative consequence of choosing a wrong insurance or money market instrument. [CO-02 Comprehension Level]

13. In a channel of transferring goods and services from the stage of raw materials to final product or service, a lot of costs are involved for determining the national income. Every production unit has something to offer in the production process till the ultimate finished product is obtained. In this context, answer the following questions:

a) Name the method of measuring National Income and explain how it is measured.

b) Give the precautions while measuring income through this method.

[CO-01 Comprehension Level]

14. Identify the situation as positive production externalities, negative production externalities,

Positive consumption externalities and negative consumption externalities.

a) A technology company produces new software that many enterprise level businesses

Adopt. With it, these other companies can increase their own productivity.

- b) An individual chooses to walk or bike to work instead of using their own car or any form of public transportation. This helps reduce the amount of pollution in the air, which greatly benefits everyone else.
- c) A person smoking in a public area
- d) A factory that produces laundry detergent dumps toxic industrial waste into nearby lake.  
The lake becomes completely polluted
- e) Burning of coal for energy creates pollution

[CO-02 Comprehension Level]

**15.** The sum of all the incomes received by the individuals or households is known as Personal Income. How do you think personal income differs from Private Income and Personal Disposable Income?

Also, do you think Personal Income is a part of National Income? If Yes, what are the items which are included or not included while calculating the same? If No, then give a valid explanation for the same.

[CO-01 Comprehension Level]

### Part C [Problem Solving Questions]

**Answer all the Questions. Each question carries FIFTEEN marks. (1Qx15M=15M)**

**16.** On the basis of the following information, calculate Net National Product at Market Prices and Disposable Personal Income:

Particulars	Rs. Crores
Net domestic product at factor cost	15480
Income from domestic product accruing to government	140
National debt interest	170
Transfer payments by government	240
Net private deductions from abroad	30
Net earned income from abroad	80
Indirect Taxes	1330
Direct Taxes	335
Subsidies	100
Taxes on corporate profits	222
Undistributed profits of corporations	105

[CO-01 Application Level]



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**PRESIDENCY UNIVERSITY  
BENGALURU**

**SCHOOL OF MANAGEMENT**

**END TERM EXAMINATION**

**Winter Semester:** 2021 - 22

**Course Code:** BSE 1008

**Course Name:** Applied Macroeconomics

**Program & Sem:** MBA – II Sem

**Date:** 28<sup>th</sup> June 2022

**Time:** 09.30 AM to 12.30 PM

**Max Marks:**

**Weightage:**50%

**Instructions:**

*(ii) Read the all questions carefully and answer accordingly.*

**Part A [Memory Recall Questions]**

**Answer all the Questions. Each question carries THREE marks.  
(30M)**

**(10Qx 3M=**

1. Write the formula of  $NNP_{FC}$  calculation with Expenditure Method and Income Method.  
(CO.NO 1)[

Knowledge]

2. Illustrate the Circular flow of income in two sector model (diagram) (CO.NO 5)[  
Knowledge]

3. Choose the right meaning of progressive tax from the following.

- a. The tax rate increases as the taxable income increases
- b. The average tax rate increases as the income rises
- c. The tax rate increases as the income increases
- d. The average tax rate increases as the taxable income increases

(CO.NO 3)[ Knowledge]

4. Define Pigouvian Taxes. Write the meanings of pollution permit and pollution tax and example for each of them. (C.O.No.2)

[Knowledge]

5. Match The Following (CO.NO 2)[

Knowledge]

A. Club goods

B. Cars

C. National defence

D. Forest resources

E. Cigarettes and alcohol

1. Demerit Goods

2. Rivalrous And Excludable

3. Non-Rivalrous And Excludable

4. Public good

5. Rivalrous And Non-Excludable

F. Not provided by market mechanism

6. Non- Rivalrous And Non- Excludable

6. Business cycles are comprised of concerted cyclical upswings and downswings in the broad measures of economic activity—output, employment, income, and sales.

Identify the right order of business cycles.

- a) Prosperity, Recession, Depression, Recovery
- b) Recession, Prosperity, Recovery, Depression
- c) Depression, Recession, Prosperity, Recovery,
- d) Recession, Recovery, Prosperity, Depression

(CO.NO 3)[ Knowledge]

7. Two cases given below, Knowledge]

(CO.NO 3)[

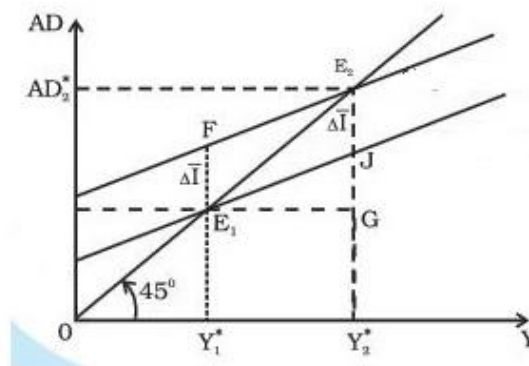
- i. Identify the reason for market failure in these cases.
- ii. Define each of the reason.

a) If a homeowner wanted to sell their house, they would have more information about the house than the buyer. They might know some floorboards are creaky, the home gets too cold in winter, or that the neighbors are too loud; information that the buyer would not know until after they purchased the house.

b) A diabetic person has a shorter life expectancy compared to a healthy person, and failure to exercise regularly increases the risk. Unless the insurance company has information on the health status of the two potential policyholders, the company will be at a disadvantage and will treat both individuals as ordinary policyholders.

8. Identify all the three curves in the image Knowledge]

(CO.NO5)[



- 9. Answer i. Identify the components of the  $AD=C+I+G=XM$
- ii. What are the sub-components of **C**
- iii. Mention the reason why (CO.NO5)[ Knowledge]

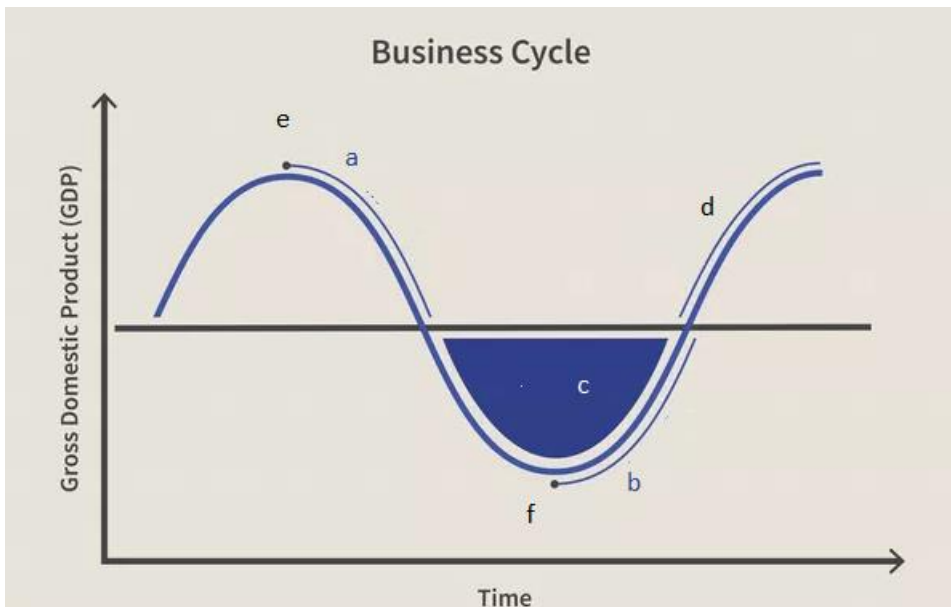
10. Identify any three important interventions by the government for equitable distribution of income. (CO.NO 4)[

Knowledge]

## Part B [Thought Provoking Questions]

Answer all the Questions. Each question carries EIGHT marks.  
(5Qx8M=40M)

11. A farmer grows a bushel of wheat and sells it to a miller for 1 dollar. The miller turns the wheat into flour and then sells the flour to a baker for 3 dollars. The baker uses the flour to make bread and sells the bread to an engineer for 6 dollars. The engineer eats the bread.
- What is the value added by each person?
  - What is the meaning of value added?
  - What are the exclusions and additions in value added methods?(CO.NO 1)[Application]
12. Answer the questions accordingly (CO.NO5)[Comprehension]
- Identify the type of fiscal policy(expansionary or contractionary).
  - State few sentences to define the types.
  - Elucidate how you arrived at the conclusion
    - President Bill Clinton used fiscal policy by cutting spending in several key areas. First, he required welfare recipients to work within two years of getting benefits. After five years, benefits were cut off. He also raised the top income tax rate from 31% to 39.6%
    - The Obama administration used a fiscal policy with the Economic Stimulus Act. The American Recovery and Reinvestment Act cut taxes, extended unemployment benefits, and funded public works projects. The law, which was enacted in 2009, was meant to stimulate the weakening economy, costing \$787 billion in tax cuts and government spending. All this occurred while tax receipts dropped, thanks to the 2008 financial crisis.
    - President Franklin D. Roosevelt used fiscal policy too soon after the Depression. He was reacting to political pressure to cut the debt. The Depression came roaring back in 1932. It didn't end until FDR geared up spending for World War II.
13. Name all the parts of the business cycle. Interpret each stage that you identify with an example. (CO.NO 4)[Application]



14. Street lighting, Emergency services, National defence are the examples of public goods.  
(CO.NO 2)[Application]

- i. Illustrate the features of public goods.
- ii. And the table of combination of features of public goods

15. The marginal propensity to consume (MPC) is defined as the proportion of an aggregate raise in pay that a consumer spends on the consumption of goods and services, as opposed to saving it. Marginal propensity to consume is a component of Keynesian macroeconomic theory and is calculated as the change in consumption divided by the change in income. Considering the above theory:

- i. If the general MPC is set at 0.75, what is the rate of investment multiplier?
- ii. If the MPC is known to be 0.8, what is the rate of investment multiplier?
- iii. Also if MPC falls to 0.5, what happens to the AD, AS, National income?
- iv. Explain the effect of change in investment multiplier in few sentences.

(CO.NO

5)[Comprehension]

### Part C [Problem Solving Questions]

**Answer both the Questions. Each question carries FIFTEEN marks.  
(2Qx15M=30M)**

16. Solve the following National Income aggregates. (CO.NO 1)[Application]

a) Calculate gross value added of factor cost :

(i)	Units of output gold (units)	1000
(ii)	Price per unit of output (Rs.)	30
(iii)	Depreciation (Rs.)	1000
(iv)	Intermediate cost (Rs.)	12000
(v)	Closing stock (Rs.)	3000

(vi)	Opening stock (Rs.)	2000
(vii)	Excise (Rs.)	2500
(viii)	Sales Tax	3500

b) Calculate Net Value added at factor cost :

(i)	Consumption of Fixed capital (Rs.)	600
(ii)	Import duty (Rs.)	400
(iii)	Output sold (units)	2000
(iv)	Price per unit of output (Rs.)	10
(v)	Net change in stock (Rs.)	(-) 50
(vi)	Intermediate cost (Rs.)	10000
(vii)	Subsidy (Rs.)	500

c) Find Net Value added at market price :

(i)	Output sold (units)	800
(ii)	Price per unit of output (Rs.)	20
(iii)	Excise (Rs.)	1600
(iv)	Import duty (Rs.)	400
(v)	Net change in stock (Rs.)	(-) 500
(vi)	Depreciation (Rs.)	1000
(vii)	Intermediate cost (Rs.)	8000

17. Read the following case study paragraph carefully and answer the questions on the basis of the same. Repo (repurchase) rate also known as the benchmark interest rate is the rate at which the RBI lends money to the commercial banks for a short-term (a maximum of 90 days). When the repo rate increases, borrowing from RBI becomes more expensive. If RBI wants to make it more expensive for the banks to borrow money, it increases the repo rate similarly, if it wants to make it cheaper for banks to borrow money it reduces the repo rate. If the repo rate is increased, banks can't carry out their business at a profit whereas the very opposite happens when the repo rate is cut down. Generally, repo rates are cut down whenever the country needs to progress in banking and economy. If banks want to borrow money (for short term, usually overnight) from RBI then banks have to charge this interest rate. Banks have to pledge government securities as collateral. This kind of deal happens through a repurchase agreement. If a bank wants to borrow, it has to provide government securities at least worth ₹ 1 billion (could be more because of margin requirement which is 5%–10% of loan amount) and agree to repurchase them at ₹1.07 billion (US\$15 million) at the end of borrowing period. So the bank has paid ₹65 million (US\$910,000) as interest. This is the reason it is called repo rate.

(CO.NO 5)[Comprehension]

- i. What kind of tool Repo rate is:-
  - a) Qualitative tool
  - b) Quantitative tool



- c) Fiscal tool
- ii. Why Repo rate is called Repurchasing rate:-
  - a) Commercial bank has to mortgage its securities with RBI
  - b) Commercial bank has to make an agreement to repurchase the securities mortgage with RBI
  - c) Commercial banks have to pay interest on borrowings
- iii. If inflationary conditions persist in economy then what should be done with RePo rate
  - a) RePo rate should be reduced
  - b) RePo rate should be increased
  - c) Does not change RePO rate
  - d) None of above
- iv. Elucidate the working of reduction in SLR, CRR, Repo Rate, Bank Rate and ROI