Roll No												

PRESIDENCY UNIVERSITY
BENGALURU

SCHOOL OF COMMERCE

MAKE UP EXAMINATION – JAN 2023

Course Code: COM 204
Course Name: Macro Economics
Program : BCH

Date: 25-JAN-2023
Time: 01:00PM to 04:00PM
Max Marks: 100
Weightage:50%

Instructions:

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

Part A [Memory Recall Questions]

Answer all the Questions. Each question carries TWO marks. (10Qx 2M= 20M)

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. (CO.NO 3)[Knowledge]
   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
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	1. Demerit Goods
B. Cars	2. Rivalrous And Excludable
C. National defence	3. Non-Rivalrous And Excludable
D. Forest resources	4. Public good
E. Cigarettes and alcohol	5. Rivalrous And Non-Excludable
F. Not provided by market mechanism	6. Non- Rivalrous And Non-Excludable

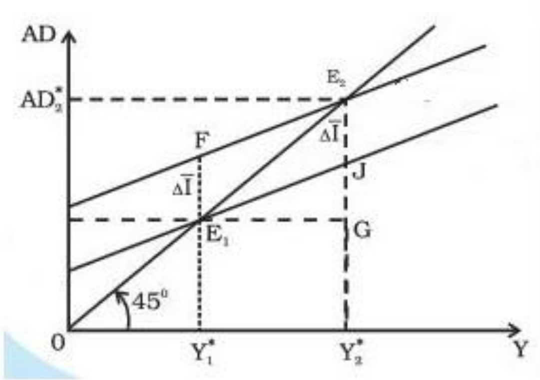
6. Business cycles are comprised of concerted cyclical upswings and downswings in the broad measures of economic activity—output, employment, income, and sales.
Identify the right order of business cycles.
    a) Prosperity, Recession, Depression, Recovery
    b) Recession, Prosperity, Recovery, Depression
    c) Depression, Recession, Prosperity, Recovery,
    d) Recession, Recovery, Prosperity, Depression (CO.NO 3)[Knowledge]

7. Two cases given below: (CO.NO 3)[Knowledge]
    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 (CO.NO5)[Knowledge]



9. i. Identify the components of the **AD=C+I+G+XM**
   ii. What are the sub-components of **C** (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 TEN marks. (4Qx10M=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.
    i. What is the value added by each person?
    ii. What is the meaning of value added?
    iii. What are the exclusions and additions in value added methods?(CO.NO 1)[Application]

12. Answer the questions accordingly (CO.NO5)[Comprehension]

i. Identify the type of fiscal policy (expansionary or contractionary).

ii. State few sentences to define the types.

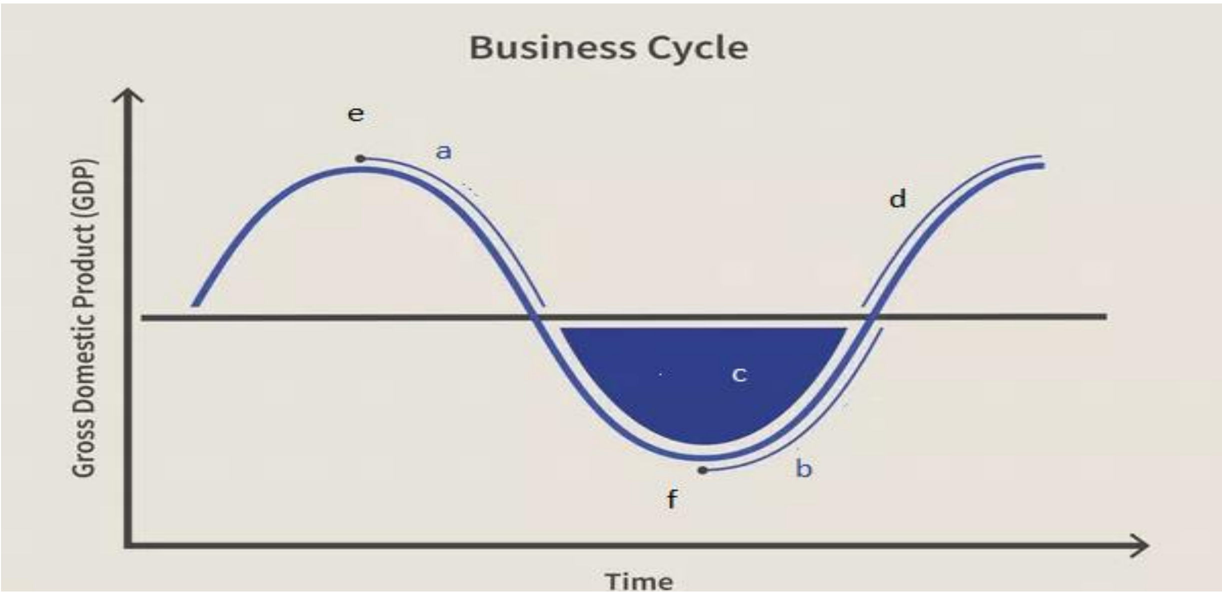
iii. Elucidate how you arrived at the conclusion

a. 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%

b. 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.

c. 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. 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 all the Questions. Each question carries TWENTY marks. (2Qx20M=40M)

15. 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)	Depriciation (Rs.)	1000
(vii)	Intermediate cost (Rs.)	8000

16. 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 re-purchase 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