UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
Online End Semester Examination, Jan 2021

Program: MA in Economics   **Semester: I**
Course: Macroeconomics Analysis-I   **Max. Marks: 100**
Course Code: ECON 7016   **Duration: 3 Hours**

SECTION A
1. **Each Question will carry 5 marks.**
2. **Attempt all the questions. Write very short answer.**

S. No	Question	COs
1.	Explain the following functions and identify the dependent and independent variables for (a) $I = f(i)$ and (b) $I = f(Y_{t+1} - Y_t)$.	CO2
2.	What are the factors which determine slope of the IS curve?	CO1
3.	Explain and differentiate nominal and real GNP.	CO1
4.	Why do income tax reduce the value of multiplier?	CO1
5.	Differentiate between partial and general equilibrium analysis.	CO1
6.	Explain the crowding out effect.	CO1

SECTION B
1. **Each Question will carry 10 marks.**
2. **Attempt all the questions. Write short answer.**

S. No	Question	COs
7.	Two youngsters A and B have similar qualifications and earn the same income. However, A comes from a family with a longer history of coronary problems and expects to die at an earlier age. Who will have a higher present consumption and why?	CO3
8.	Explain how cutting down trees to make furniture may increase a country's GDP but causes economic welfare to decline at the same time.	CO3
9.	Behavioural and structural equations of an economy are given below: $$C = 100 + b(Y - 50 - tY)$$ $$I = 50, G = 50, X = 10, M = 5 + 0.1Y$$ The MPC is equal to 0.8 and proportional income tax rate, $t = 0.25$. (a) Find the equilibrium national Income. (b) Find foreign trade multiplier. (c) Find equilibrium value of imports. (d) If equilibrium national income falls short of full-employment income by Rs. 50, how much government should increase its expenditure to attain full-employment?	CO2

10.	Consider an economy with the following features: Consumption, $C = 100 + 0.9Y_d$ Income tax, $t = 1/3Y$ Investment, $I = 600 - 30i$ Government Expenditure, $G = 300$ Transaction demand for money, $M_1 = 0.4Y$ Speculative demand for money, $M_2 = -50i$ Nominal Money Supply, $M = 1040$ Price level, $P = Rs. 2$ Where, Y_d = disposable income and i = rate of interest. Derive the IS and LM equations and find out the equilibrium levels of income and rate of interest.	CO2
11.	How does permanent income hypothesis explain that the short run marginal propensity to consume is lower than the long-run marginal propensity to consume? Do you think that the short-run MPC of someone who income is highly variable will be relatively low? Why?	CO3
SECTION C		
1. **Each Question will carry 20 marks.** 2. **Write long answer.**		
12.	Demonstrate using the IS-LM model whether it is necessary to have decrease in interest rates in order that the economy achieves a given level of income that policy makers seek.	CO4