University of Petroleum & Energy Studies (UPES)
School of Business (SoB)
End-Semester Examination – May 2023

Program: Integrated BBA – B.Com. ALL Semester: II
Subject/Course: Business Economics II Maximum Marks: 100
Course Code: ECON 1006 Duration: 03 Hours

INSTRUCTIONS:
- **This is a CLOSED-BOOK EXAM. Only Non-scientific calculator is allowed.**
- **Cellphones / Tablets / Laptops / Books / Notes etc. are NOT allowed.**

Q. No.	Questions	Marks	COs
	SECTION A **10Q x 2M = 20 Marks**		
Q 1.	Suppose the nominal GDP increases in a given year. Based on this information, we know with certainty that: A) the real output has increased. B) the price level (GDP deflator) has increased. C) the real output and the price level (GDP deflator) have both increased. D) either the real output or the price level (GDP deflator) have increased. E) the real output has decreased, and the price level has increased.	2	CO1
Q 2.	If nominal GDP rises from $10 trillion to $12 trillion, while the GDP deflator rises from 2.0 to 2.2, the percentage (%) change in the real GDP is: A) −10% B) 10% C) 1.1% D) 9.1% E) 20%	2	CO1

Q 3.	Suppose that for the year 2003, a company spends $200 million on intermediate goods and $400 million on wages, with no other expenses. Also, assume that its total sales are $900 million. The value added by this company is: **A)** $200 million. **B)** $300 million. **C)** $500 million. **D)** $700 million. **E)** $800 million.	2	CO1
Q 4.	When disposable income is zero, we know that: **A)** consumption must be zero. **B)** saving must be zero. **C)** saving equals investment. **D)** saving is negative. **E)** the marginal propensity to consume must be zero.	2	CO1
Q 5.	If $C = 100 + 0.5Y_D$, what increase in government spending would raise GDP by 1000? **A)** 500 **B)** 1,000 **C)** 1,500 **D)** 2,000 **E)** 2,500	2	CO1
Q 6.	When $C = C_0 + C_1Y_D$, an increase in C_0 will cause which of the following to increase? **A)** equilibrium income **B)** equilibrium disposable income **C)** equilibrium saving **D)** all of the above	2	CO1

Q 7.	The interest rate will increase as a result of which of the following events? **A)** a decrease in income **B)** an open market purchase of bonds by the central bank **C)** an increase in income **D)** all of the above **E)** none of the above	2	CO1
Q 8.	Suppose the central bank wishes to conduct expansionary monetary policy. Given this, we would expect which of the following to occur? **A)** a central bank purchase of bonds and an increase in the interest rate. **B)** a central bank purchase of bonds and a reduction in the interest rate. **C)** a central bank sale of bonds and an increase in the interest rate. **D)** a central bank sale of bonds and a reduction in the interest rate.	2	CO1
Q 9.	Suppose the economy is operating on the LM curve but not on the IS curve. Given this information, we know that: **A)** the goods market is in equilibrium and the money market is not in equilibrium. **B)** the money market and bond markets are in equilibrium and the goods market is not in equilibrium. **C)** the money market and goods market are in equilibrium and the bond market is not in equilibrium. **D)** the money, bond and goods markets are all in equilibrium.	2	CO1
Q 10.	If you want to pay through cheque to make a purchase of textbooks, which function of money would you be using? **A)** A store of wealth **B)** A unit of account **C)** A medium of exchange **D)** All of the above **E)** None of the above	2	CO1

	SECTION B 4Q x 5M = 20 Marks		
Q 11.	How does structural unemployment differ from frictional unemployment?	5	CO2
Q 12.	What are various tools of monetary policy and fiscal policy?	5	CO2
Q 13.	Derive the consumption multiplier.	5	CO2
Q 14.	What is the difference between (a) nominal exchange rate, and (b) real exchange rate?	5	CO2
	SECTION C 3Q x 10M = 30 Marks		
Q 15.	Assume an economy with two firms. Firm A produces wheat and firm B produces bread. In a given year, firm A produces 50,000 bushels of wheat, sells 20,000 bushels of wheat to firm B at $3 per bushel, exports 25,000 bushels of wheat at $3 per bushel, and stores 5,000 bushels as inventory. Firm A pays $50,000 in wages to consumers. Firm B produces 50,000 loaves of bread, and sells all of it to domestic consumers at $2 per load. Firm B pays consumers $20,000 in wages. In addition to the 50,000 loaves of bread, consumers buy from firm B, consumers import and consume 15,000 loaves of bread, and they pay $1 per load for this imported bread. Calculate GDP for the year using: (a) the 'production of final goods' approach, (b) the 'value added' approach, and (c) the income approach.	10	CO3

| Q 16. | Suppose that people in Slotsky country produce and consume pizza and pop as follows. | 10 | CO3 |

	Pizza		Pop	
Year	Quantity	Price	Quantity	Price
Year0	30	5	50	10
Year1	50	10	60	15
Year2	60	12	65	25

(a) Calculate the consumer price index (CPI) in each year using Year0 as the base year. Show your work.
(b) Using your CPI in (a), what is the inflation rate in Year1 and Year2? Show your work.
(c) Calculate the GDP deflator in each year using Year0 as the base year. Show your work.

| Q 17. | Consider a closed economy with a gross domestic product (Y) of 1200, consumption expenditure (C) of 750, government expenditure (G) of 200 and tax revenues (T) of 170. The figures are in billions of dollars. Suppose the investment expenditure function is: $I = 400 - 200r$, where r is the real interest rate expressed as a percentage (%). | 10 | CO3 |

(a) State the equation between (Y) and the three components of expenditure.
(b) Calculate private saving (S_P), public saving (S_g), and national saving (S).
(c) Calculate investment (I)
(d) Calculate the equilibrium real interest rate (r) and quantity of loanable funds.
(e) Show that if the government ran a budget surplus of $20 billion, it decreases the demand for loanable funds and increases the supply of loanable funds in the market of loanable funds.

	SECTION D **2Q x 15M = 30 Marks**		
Q 18.	Explain whether each of the following events increases, decreases, or has no effect on the unemployment rate and the labour force participation rate in India. (a) After a long search, Shaun gives up looking for a job and retires. (b) Peter finds a job after a long search. (c) Stephen finds a part-time job after a long search. (d) Lilian graduates high school and starts to look for employment. (e) Bruce fails to find a job and relocates to a different country. (f) Jose, an electrical engineer in Sao Paulo, Brazil, is looking for a job in India. (g) Maria becomes an adult but has no interest in working. (h) Shaggy, a full-time university nursing student, graduates and immediately finds a job. (i) James quits his full-time job and finds a part-time job. (j) Luke finds a job that starts in 4 weeks' time.	15	CO4
Q 19.	As an Analyst if you are asked to prepare a detailed report on Indian Economy. How you will structure your report with a detailed description regarding the various macroeconomic variables you will considering for your report.	15	CO4