

MIDTERM EXAMINATION

ECO403 - MACROECONOMICS (Session - 4)

Marks: 40

Time: 90min

StudentID/LoginID: _____

Student Name: _____

Center Name/Code: _____

Exam Date: Monday, May 14, 2007

Please read the following instructions carefully before attempting any question:

All questions are compulsory.

This exam consists of **10** Multiple Choice Questions (MCQs) of **1** mark each, **5** fill in the blanks of **1** mark each, **3** Short questions of **5** marks each and one Descriptive question of **10** marks.

For each Multiple Choice Question, read the options available and select which you consider is the correct one.

You are required to show all the working of short as well as practical question.

Use of calculator is allowed.

This examination is closed book, closed notes and closed neighbours.

Do not ask question about the contents of this examination from anyone.

You may wish to pace yourself with your own watch, but the Supervisor will be the official timekeeper of the test.

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.

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		
Question Marks											
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Question No: 1 (Marks: 1) - Please choose one

Macroeconomics is concerned with:

- ▶ Only changes in the overall price level.
- ▶ Only long-run trends in economic activity.
- ▶ Both long-run trends and short-run fluctuations in economic activity.
- ▶ Only short-run fluctuations in the business cycle.

Question No: 2 (Marks: 1) - Please choose one

Real GDP (gross domestic product) is measured:

- ▶ In the prices of a base year.
- ▶ In current dollars.
- ▶ At a constant output level but at current prices.
- ▶ As the difference between the current year's GDP and last year's GDP.

Question No: 3 (Marks: 1) - Please choose one

Suppose U.S. Steel sells steel to Chrysler for \$3,000, and then this steel is used in a Voyager van that is sold to a new car dealer for \$12,000. The car dealer then sells the van to a family for \$14,000. In this scenario GDP has risen by:

- ▶ \$29,000.
- ▶ \$26,000.

▶ \$14,000.

▶ \$12,000.

Question No: 4 (Marks: 1) - Please choose one

In product markets:

- ▶ Firm supply products, which households demand.
- ▶ Households supply inputs, which firm demand.
- ▶ Households supply goods and services, which businesses demand.
- ▶ Households demand outputs, which firm supply.

Question No: 5 (Marks: 1) - Please choose one

The narrowest definition of money supply is:

- ▶ M2.
- ▶ M3.
- ▶ M1.
- ▶ M4.

Question No: 6 (Marks: 1) - Please choose one

Unemployment means that:

- ▶ At the current wage, there are people who want to work but cannot find work.
- ▶ There is excess demand in the labor market.
- ▶ There are some people who will not work at the current wage.

- ▶ People are not willing to work at the current wage.

Question No: 7 (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: 8 (Marks: 1) - Please choose one

While imposing tax the inflation rate is not considered. It is called:

- ▶ Progressive tax system.
- ▶ Proportional tax system.
- ▶ Unfair tax treatment.
- ▶ Sales tax.

Question No: 9 (Marks: 1) - Please choose one

Suppose that an individual is working at home without pay. That person would be counted as:

- ▶ Employed.
- ▶ Unemployed.
- ▶ Not in the labor force.

- ▶ Self employed.

Question No: 10 (Marks: 1) - Please choose one

Economic growth is best measured as an increase in:

- ▶ Real output per person.
- ▶ Nominal GDP.
- ▶ Investment.
- ▶ Household consumption.

Question No: 11 (Marks: 1)

_____ is the ability of a single person or firm to unduly influence market prices.

Question No: 12 (Marks: 1)

_____ measures the price of output relative to its price in the base year.

Question No: 13 (Marks: 1)

The real interest rate adjusts to equate demand with_____.

Question No: 14 (Marks: 1)

Monetary policy is the control over the_____.

Question No: 15 (Marks: 1)

_____ are measured in physical units: quantities and relative prices.

Question No: 16 (Marks: 5)

Define stock and flow variables and also sort out the following stock and flow variables.

Wealth, GDP, Income, expenditure, capital, Number of people losing their jobs, Amount of investment, Government debt.

(Marks 1+4)

Question No: 17 (Marks: 5)

From where does the demand for loanable funds come? What is the relationship between the demand for loanable funds and price of loanable funds?

Question No: 18 (Marks: 5)

Define purchasing power parity (PPP). Give the two reasons why purchasing power parity (PPP) does not hold in real world?

Question No: 19 (Marks: 10)

Define quantity equation. Explain quantity theory of money.

(2+8)