

FINALTERM EXAMINATION SPRING 2007 ECO403 - MACROECONOMICS (Session - 4)		Marks: 60 Time: 150min
StudentID/LoginID:		
Student Name:		
Center Name/Code:		
Exam Date:	Wednesday, July 04, 2007	
INSTRUCTIONS:		
Please read the following instructions carefully before attempting any question:		
• All questions are compulsory. • This exam consists of 15 Multiple Choice Questions (MCQ's) carrying 1 mark each, 5 fill in the blanks carrying 1 mark each, 5 true false carrying 1 mark each, 3 Short questions carrying 5 marks each and 2 Descriptive questions carrying 10 marks. • You are required to show all the working of short questions as well as Descriptive question. • This examination is closed book, closed notes, closed neighbors. • Do not ask any 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.		

- Use of mobile phone is strictly prohibited. It must be "switched off" if it is in your custody.

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	20	
Question Marks	21	22	23	24	25	26	27	28	29	30	
Question Marks											

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

Scarcity can best be defined as a situation in which:

- ▶ There are no buyers willing to purchase what sellers have produced.
- ▶ There is more than enough money to satisfy consumers' wants.
- ▶ Resources are limited in quantity and can be used in different ways.
- ▶ There are not enough goods to satisfy all of the buyers' demand.

Question No: 2 (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: 3 (Marks: 1) - Please choose one

Gross domestic product measured in terms of the prices of a fixed, or base, year is:

- ▶ Base GDP.
- ▶ Current GDP.
- ▶ Real GDP.
- ▶ Nominal GDP.

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

The number of people unemployed equals:

- ▶ The number of people employed minus the labor force.
- ▶ The labor force plus the number of people employed.
- ▶ The number of people employed divided by the labor force.
- ▶ The labor force minus the number of people employed.

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

Keeping in mind the functions of money, which one of the following is not money?

- ▶ Currency
- ▶ Checks
- ▶ Credit cards
- ▶ Time deposits

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

Which of the following would not be included in M2?

- ▶ Demand deposits

- ▶ Checking accounts
- ▶ Money market accounts
- ▶ None of the given options

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

The relationship between consumer spending and income is known as the:

- ▶ 45-degree line.
- ▶ Consumption function.
- ▶ Investment function.
- ▶ Consumer price index.

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

All of the following statements about the marginal product of capital MPK are true EXCEPT:

- ▶ $MPK = f(k + 1) - f(k)$.
- ▶ MPK tends to decline as k increases.
- ▶ When there is only a little capital, MPK is very small.
- ▶ MPK is equal to the slope of the production function $y = f(k)$.

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

A rightward shift in the aggregate demand curve can be caused by:

- ▶ An increase in government spending.
- ▶ An increase in money supply.

- ▶ A decrease in taxes.
- ▶ All of the given options.

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

The aggregate supply curve in the short run is different from the aggregate supply curve in the long run due to:

- ▶ The recurring nature of supply shocks.
- ▶ The existence of sticky prices in the short run.
- ▶ The wealth effect.
- ▶ The crowding out effect.

Question No: 11 (Marks: 1) - Please choose one

Fiscal policy shifts the:

- ▶ The short run aggregate supply curve.
- ▶ The long run aggregate supply curve.
- ▶ Full employment level of output.
- ▶ The aggregate demand curve.

Question No: 12 (Marks: 1) - Please choose one

If wages are sticky downward, an increase in labor:

- ▶ Demand increases the wage rate.
- ▶ Demand decreases the wage rate.

- ▶ Supply increases the wage rate.
- ▶ None of the given options.

Question No: 13 (Marks: 1) - Please choose one

Which of the following would a macroeconomist consider as investment?

- ▶ Julie buys a government bond.
- ▶ Fred purchases 100 shares of stock in Microsoft.
- ▶ Tom buys a new tractor for his farm.
- ▶ Jane buys a new car.

Question No: 14 (Marks: 1) - Please choose one

The nominal interest rate is:

- ▶ Unadjusted for the effects of inflation.
- ▶ The interest rate quoted in financial markets.
- ▶ Both unadjusted for the effects of inflation and the interest rate quoted in financial markets.
- ▶ None of the given options.

Question No: 15 (Marks: 1) - Please choose one

If interest rates increase, people will most likely hold:

- ▶ More bonds and less cash.
- ▶ Less bonds and less cash.
- ▶ More bonds and more cash.

- ▶ Less bonds and more cash.

Question No: 16 (Marks: 1) - Please choose one

Intermediate goods are counted in the calculation of GDP.

- ▶ True
- ▶ False

Question No: 17 (Marks: 1) - Please choose one

Structural unemployment is the unemployment resulting from real wage rigidity and job rationing.

- ▶ True
- ▶ False

Question No: 18 (Marks: 1) - Please choose one

As income rises, average propensity to consume (APC) falls.

- ▶ True
- ▶ False

Question No: 19 (Marks: 1) - Please choose one

Adaptive expectation is an approach that assumes that people base their expectations on all available information, including information about current and prospective future policies.

- ▶ True
- ▶ False

Question No: 20 (Marks: 1) - Please choose one

The deposits that banks have received but have not lent out are called banks investments.

► True

► False

Question No: 21 (Marks: 1)

To compute the total value of different goods and services, the national income accounts use _____.

Question No: 22 (Marks: 1)

Monetary policy is conducted by country's _____.

Question No: 23 (Marks: 1)

_____ is a graph of all combinations of interest rate and income that results in goods market equilibrium.

Question No: 24 (Marks: 1)

Full-employment output does not depend on the price level, so the long run aggregate supply (LRAS) curve is _____.

Question No: 25 (Marks: 1)

Economists decompose the impact of an increase in the real interest rate on consumption into two effects: an income effect and a _____.

Question No: 26 (Marks: 5)

Define hyperinflation. What causes hyperinflation? Also explain briefly why government creates hyperinflation.

Question No: 27 (Marks: 5)

What are the advantages of floating exchange rates and fixed exchange rates?

Question No: 28 (Marks: 5)

Define budget deficit and government debt. Also write down the major components of government debt.

Question No: 29 (Marks: 10)

Discuss the policies to promote economic growth.

Question No: 30 (Marks: 10)

Explain Milton Friedman's permanent income hypothesis.