



Institute of Management
JK Lakshmipat University
Jaipur
END TERM EXAMINATION, 2019

MBA Term II
MM: 40 Marks

Course: Macro Economics
Time: 2 Hours
Subject code: EP2130

Instructions: Attempt all questions and each carries 8 marks.

Q1. How do apply your learnings for the following:

- a) According to the Quantity Theory of money, what is the effect of an increase in the quantity of money?
- b) What are the costs of Inflation? Which of these costs do you think are the most important for the Indian economy?
- c) Suppose that this Year's money supply is \$500 billion, nominal GDP is \$ 10 trillion, and real GDP is \$5 trillion. What is the Price level? What is the velocity of money?
- d) Assume the effects of inflation in an economy composed of only two people: Ram, a wheat farmer, and Rita , a rice farmer. Ram and Rita both always consume equal amounts of rice and wheat. In 2017, the price of wheat was Rs. 1, and the price of rice was Rs 3. If in 2018, the price of wheat was Rs. 2 and price of rice was Rs 6. What was Inflation? Was Ram better off, worse off, or unaffected by the changes in prices? What about Rita?

(2+2+2+2 Marks)

Q2. A) Ministry of Labour and Employment announced that in April 2019, of all adult Indians, 80 million were employed, 5 million were unemployed and 20 million were not in the labour force. Use this information to calculate:

- a. The adult population
- b. The labor force
- c. The labour force participation rate
- d. The unemployment rate

B) How do you find the possible reasons of structural unemployment?

(4+4 Marks)

Q3. What is the theory of Liquidity Preference? How does it help explain the downward slope of the aggregate demand curve?

(4+4 Marks)

Q4. How would you explain and draw the Phillips curve. Use the model of aggregate demand and aggregate supply to show how policy can move the economy from a point on this curve with high inflation to a point with low inflation.

(4+4 Marks)

Q5. A) Suppose that the government increases spending on highway construction by Rs. 10 million. Which way does the aggregate demand curve shift? Explain why the shift might be larger than Rs. 10 million. Explain why the shift might be smaller than Rs. 10 million. Apply multiplier and crowding out effect.

B) Assume that the people consume the three goods, as shown in table:

	Apple	Rice	Bottles of Juice
2018 Price (Rs.)	2	4	1
2018 Quantity	100	100	200
2019 Price (Rs.)	3	6	2
2019 Quantity	100	100	200

Calculate GDP Deflator and Consumer Price Index by using 2018 as base Year and explain the difference between inflation rates?

(4+4 Marks)