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| **Name:**<br><br>**Enrolment No:** | UPES<br>UNIVERSITY WITH A PURPOSE |

**UNIVERSITY OF PETROLEUM AND ENERGY STUDIES**

**Online End Semester Examination, June 2021**

Course: **Business Economics II** Semester: **II**
Program: **BBA- Foreign Trade** Time: **03 Hours.**
Course Code: **ECON1006** Max. Marks: **100**

**SECTION A**
**Each question carries 5 marks.**

| S. No. | **Questions** | **CO** |
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| Q1 | What determines the demand for a good in a competitive market? | **CO1** |
| Q2 | Differentiate between nominal and real gross domestic product (GDP). | **CO1** |
| Q3 | What is inflation? How to measure it? | **CO1** |
| Q4 | How fiscal policy is used to combat a recession in an economy? | **CO1** |
| Q5 | What determine aggregate supply in the long run and in the short run? | **CO1** |
| Q6 | What causes change in potential GDP? | **CO1** |

**SECTION B**
**Each question carries 10 marks.**

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| Q7 | Oil prices has dropped dramatically since Saudi Arabia and Russia set off a price war after failing to reach an output cut agreement in March 2020. In that context, we see important risks to Canada's economic outlook stemming from the recent decline in the price of oil and other commodities. As a net oil exporter Canada will be affected by the lower prices, operating through several channels. In addition, an oil price war will have massive consequences to the plummeting markets that are already shaken by the coronavirus we are experiencing.<br><br>(a) What effect does a falling oil price have on Canada's GDP? Please explain in your own words using **appropriate** macroeconomic theories **learned in this course**. **[5 marks]**<br><br>(b) If the Canadian economy is currently operated at a below full-employment equilibrium, what happens in the long run when the price of oil falls? What needs to be done to move the economy towards full employment in the long run? Would the situation any different if the economy is currently operated at above full-employment equilibrium? Please explain in your own words using **appropriate** macroeconomic theories **learned in this course** and within the context of the current situation. **[5 marks]** | **CO3** |

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| Q8 | Canadians are juggling record debt loads averaging $90,000 per household including mortgage debt in 2019, but job losses during Covid-19 pandemic since 2020 would push many families over a fiscal cliff. Covid-19 describes a perfect storm of flat or zero earnings, increased spending, and reducing savings. Many consumers borrowed cash at lower interest rates to buy more expensive homes as real estate prices steadily on the rise. But many Canadians, especially those earning net middle incomes of about $60,000 a year, have racked up consumer debt that is almost doubled that of 2019.<br><br>(a) Explain using AD/AS and AE models to illustrate how the above scenario has the potential to "push many families over a fiscal cliff". What is the problem in the short-run? What would happen to the economy in the long-run? Please explain in your own words using **appropriate** macroeconomic theories **learned in this course**. **[5 marks]**<br><br>(b) Why might consistently higher household savings rates make an economy less vulnerable to being pushed into a recession by job losses? Please explain in your own words using **appropriate** macroeconomic theories **learned in this course**. **[5 marks]** | **CO3** |
| Q 9 | What is aggregate demand? Explain the impact of a change in aggregate demand on output using graphs. | **CO3** |
| Q 10 | How banks create money? Explain. | **CO2** |
| Q 11 | Why changes in consumption and investment spending play a large role in the business cycle, thereby affecting real GDP. Explain in your own words in terms of **appropriate** macroeconomic theories **learned in this course**. | **CO2** |
| | **Section C**<br>**This question carries 20 Marks.** | |
| Q12 | Explain the effects of an increase in government expenditure on output and interest rate. Illustrate the impacts of an increase in the money supply on output and interest rate. | **CO4** |