



Name: Enrolment No:	
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UPES
End Semester Examination, May 2024

Course: Macroeconomics
Program: BBA-ALL
Course Code: ECON1014

Semester: II
Time : 03 hours
Max. Marks: 100

Instructions: All the questions are compulsory.

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q 1	The inflation rate measures how fast- (a) Prices are rising. (b) The money supply is growing. (c) The economy is growing. (d) Personal income is growing.	2	CO1
Q 2	How do competitive, profit-maximizing firms determine the optimal level of a factor? - (a) The firm demands each factor of production until that factor's marginal product equals its real factor price. (b) The firm demands each factor of production until that factor's marginal product equals zero. (c) The firm demands each factor of production until that factor's marginal product equals all other factors' marginal products. (d) The firm demands each factor of production until that factor's marginal product equals its nominal factor price.	2	CO1
Q 3	An example of <i>fiat money</i> is - (a) Beaver pelts. (b) Gold coins. (c) Cigarettes. (d) Paper bills.	2	CO1
Q 4	Which is TRUE concerning the relationship between money growth and inflation? -	2	CO1

	<p>(a) Monthly data show the impact of growth in the money supply on inflation better than decades-long data.</p> <p>(b) Inflation and money growth are inversely related.</p> <p>(c) There is a strong positive correlation between growth in the money supply and inflation.</p> <p>(d) Inflation is a function of growth in real output rather than growth in the money supply.</p>		
Q 5	<p>The opportunity cost of holding money is-</p> <p>(a) The real interest rate.</p> <p>(b) The inflation rates.</p> <p>(c) The cost of living.</p> <p>(d) The nominal interest rate.</p>	2	CO1
Q 6	<p>Which statement is TRUE about economists' models?-</p> <p>(a) Microeconomic models are based on a macroeconomic foundation.</p> <p>(b) Microeconomic and macroeconomic models have little in common.</p> <p>(c) Unlike microeconomics, with its plethora of models, macroeconomics relies on very few models.</p> <p>(d) Macroeconomists employ a variety of models, each focused on a specific problem or set of problems.</p>	2	CO1
Q 7	<p>The equation $C = ₹20 + 0.90Y_d$ indicates that consumption is-</p> <p>(a) ₹90 when disposable income is ₹100.</p> <p>(b) ₹100 when disposable income is ₹90.</p> <p>(c) ₹110 when disposable income is ₹100.</p> <p>(d) ₹180 when disposable income is ₹200.</p>	2	CO1
Q 8	<p>Which variable enables actual saving to differ from planned saving?-</p> <p>(a) The real interest rate.</p> <p>(b) Fiscal policy.</p> <p>(c) The money supplies.</p> <p>(d) Inventories.</p>	2	CO1
Q 9	<p>The natural rate of unemployment equals the sum of those who are-</p>	2	CO1

	<p>(a) Frictionally and structurally unemployed.</p> <p>(b) Frictionally and cyclically unemployed.</p> <p>(c) Structurally and cyclically unemployed.</p> <p>(d) Frictionally, structurally, and cyclically unemployed.</p>		
Q 10	<p>An economy produces 50 widgets, which sell for ₹4 each, and has a money supply of ₹100. The velocity of money is -</p> <p>(a) There is no tradeoff between unemployment and inflation in the short run.</p> <p>(b) There is no tradeoff between unemployment and inflation in the long run.</p> <p>(c) The tradeoff between unemployment and inflation is greater in the long run than in the short run.</p> <p>(d) The tradeoff between unemployment and inflation does not vary over time.</p>	2	CO1
<p>SECTION B</p> <p>4Qx5M= 20 Marks</p>			
Q 11	Explain the difference between macroeconomics and microeconomics. How are these two fields related?	5	CO2
Q 12	Describe the functions of money	5	CO2
Q 13	List all the costs of inflation you can think of, and rank them according to how important you think they are.	5	CO2
Q 14	Describe the difference between frictional unemployment and structural unemployment.	5	CO2
<p>SECTION-C</p> <p>3Qx10M=30 Marks</p>			
Q 15	In microeconomics, we expect the supply curve for the firm to slope upward to the right when drawn against price. The classical aggregate supply curve is based on this microeconomic theory of the firm but is vertical. Why?	10	CO3
Q 16	<p>You are given the following data concerning Freedonia, a legendary country:</p> $C = ₹35 + 0.80Y_d, I = ₹70, G = ₹65, T = 0.10Y.$ <p>(a) Calculate MPC and MPS.</p> <p>(b) Find equilibrium output.</p> <p>(c) What are tax revenues at equilibrium output? Does the government have a balanced budget?</p>	10	CO3

	<p>(d) Find the equilibrium output when investment increases from ₹70 to ₹90.</p> <p>(e) What has happened to the relationship between government spending and tax revenues? Why?</p>		
Q 17	<p>What are the three functions of money? Which of the functions do the following items satisfy? Which do they not satisfy?</p> <p>(a) A credit card.</p> <p>(b) A painting by Rembrandt.</p> <p>(c) A Starbucks gift card.</p>	10	CO3
<p>SECTION-D 2Qx15M= 30 Marks</p>			
Q 18	<p>Venezuela, a country rich in oil reserves, experienced a profound economic crisis characterized by hyperinflation, scarcity of basic goods, and widespread poverty. The crisis was fueled by a combination of factors including government mismanagement, corruption, economic dependence on oil, and international sanctions.</p> <p>Venezuela's economy heavily relied on oil exports, which accounted for a significant portion of government revenue. When global oil prices plummeted in the early 2010s, Venezuela, under the leadership of President Hugo Chávez and later Nicolás Maduro, faced a major economic shock. The government's failure to diversify the economy and invest in other sectors left Venezuela vulnerable to fluctuations in oil prices.</p> <p>Government mismanagement and corruption exacerbated the economic challenges. Under Chávez and Maduro, the government implemented populist policies such as price controls, currency controls, and nationalizations of industries. However, these policies were poorly executed and led to inefficiency, shortages, and a decline in private investment. Mismanagement of state-owned enterprises, including the national oil company PDVSA, further crippled the economy. Hyperinflation skyrocketed, reaching astronomical levels. Venezuelan currency, the Bolívar, became virtually worthless, leading to a collapse in purchasing power. Basic necessities such as food, medicine, and toiletries became scarce, and long queues</p>	15	CO4

formed outside supermarkets and pharmacies. Many Venezuelans struggled to afford essential goods, exacerbating poverty and social unrest.

International sanctions imposed on Venezuela worsened the situation. The United States and other countries, imposed sanctions on Venezuelan officials, restricting access to international markets and financial institutions. These measures aimed to pressure the Maduro regime to restore democratic processes and respect human rights. However, they also contributed to the country's economic isolation and exacerbated the humanitarian crisis. In response to the economic crisis, the Venezuelan government implemented various measures, including currency devaluations, price controls, and subsidies. Maduro's administration attempted to launch a state-backed cryptocurrency called the petro to circumvent international sanctions and stabilize the economy, but its effectiveness was questioned.

Despite these efforts, the Venezuelan economy continued to deteriorate, with inflation spiraling out of control and living conditions deteriorating. Millions of Venezuelans fled the country in search of better opportunities and access to basic necessities, leading to a regional migration crisis. The Venezuelan economic crisis serves as a cautionary tale about the perils of overdependence on a single commodity, government mismanagement, and the devastating impact of hyperinflation on a country's economy and its people.

Based on this case study, please answer the following:

- (a) How did Venezuela's heavy reliance on oil exports contribute to the economic crisis, and what were the consequences when global oil prices plummeted?
- (b) Describe the role of government mismanagement and corruption in exacerbating the economic challenges faced by Venezuela under the leadership of Hugo Chávez and Nicolás Maduro.
- (c) Analyze the impact of hyperinflation on the daily lives of Venezuelan citizens, including the availability of basic goods and services and the purchasing power of the Bolívar.

	<p>(d) Discuss the effects of international sanctions on Venezuela's economy and the government's response to these sanctions in attempting to stabilize the situation.</p> <p>(e) Evaluate the effectiveness of the measures implemented by the Venezuelan government, such as currency devaluations, price controls, and subsidies, in addressing the economic crisis. What were some of the limitations and unintended consequences of these measures?</p>		
Q 19	<p>Which of the following situations correspond to cyclical unemployment, structural unemployment, frictional unemployment and exit from the labour force, and why?</p> <p>(a) Aditi, a high-tech engineer, just decided to quit her job in a start-up in Bangalore; she's being interviewed for a better-paid job in a multinational company.</p> <p>(b) Anamika lost her job as a biologist at a bio-tech company when the whole industry went into recession.</p> <p>(c) A man just lost his job as a public reader as education levels have increased in his village.</p> <p>(d) Mukesh, who used to be a taxi driver, stopped looking for job three months after he lost his job.</p> <p>(e) Abhishek has been working as a craftsman making cotton dolls. Now all kids want plastic dolls, and your neighbour has been out of a job for the past two years.</p>	15	CO4