UPES
End Semester Examination, May 2025

Course: Macroeconomics   Semester: II
Program: BBA_BCom_All   Time : 03 hrs.
Course Code: ECON 1014   Max. Marks: 100

Instructions: (i) Attempt all Questions.
(ii) For MCQs, any overwriting or change in the selected option will result in zero marks.
(iii) Students are allowed to use a calculator/scientific calculator.

SECTION- A (10Qx2M=20Marks)

S. No.		Marks	COs
Q 1	The marginal propensity to consume- (a) Equals $\Delta c/\Delta Y_d$. (b) Is the behavioural coefficient c in the equation $C = b + cY_d$. (c) Is the slope of the consumption function. (d) All of the above.	2	CO1
Q 2	Frictional unemployment exists- (a) When there is a decrease in real GDP. (b) Because it takes time to find a job when one is first entering the labour force. (c) As a result of technological change. (d) When an individual retires.	2	CO1
Q 3	Which of the following is not part of the money supply?- (a) The metal coins are in your pocket. (b) The paper currency is in your wallet. (c) The balances in your retirement account. (d) The funds in your checking account	2	CO1
Q 4	Which of the following statements is incorrect? (a) There is a precautionary demand for money because of uncertainty about the receipt of future income. (b) The precautionary demand for money is unrelated to income. (c) The precautionary demand for money is affected by the opportunity cost of holding M1 balances. (d) There is a precautionary demand for money because of unexpected expenditure.	2	CO1
Q 5	In a market-clearing model- (a) The price level always exists at the intersection of aggregate supply and aggregate demand.	2	CO1

	(b) Output is determined by the intersection of aggregate supply and aggregate demand. (c) Shifts of aggregate demand or aggregate supply immediately change price and/or output. (d) All the above.		
Q 6	Full employment means- (a) Zero unemployment. (b) Only structural unemployment. (c) No cyclical unemployment. (d) Only frictional unemployment.	**2**	**CO1**
Q 7	When planned saving is greater than planned investment- (a) Output should increase. (b) Output should decrease. (c) Output should not change. (d) None of the above.	**2**	**CO1**
Q 8	A change in autonomous spending is represented by- (a) A movement along a (C+I+G) spending line. (b) A shift of a (C+I+G) spending line. (c) A change in the coefficient of consumption functions. (d) None of the above.	**2**	**CO1**
Q 9	Which of the following is the objective of expansionary monetary policy?- (a) Decrease inflation. (b) Increase unemployment. (c) Stimulate economic growth. (d) Increase interest rates.	**2**	**CO1**
Q 10	Cost-push inflation could arise due to- (a) Oil price hike. (b) Increased dearness allowance. (c) Both 'a' and 'b'. (d) All the above.	**2**	**CO1**
SECTION- B (4Qx5M= 20 Marks)			
Q 11	If you are out shopping for clothes and books, what is the easiest and most convenient for you to spend: M1 or M2? Explain your answer.	**5**	**CO2**
Q 12	If you wake up in the morning and find that nominal GDP has doubled overnight, what statistics would you need to check before you begin to celebrate and why?	**5**	**CO2**
Q 13	Inflation is inevitable in an economy attempting to grow rapidly in the presence of structural bottlenecks, Discuss.	**5**	**CO2**
Q 14	Explain the concept of the natural rate of unemployment.	**5**	**CO2**
SECTION- C (3Qx10M=30 Marks)			

Q 15	Explain how each of the following events affects the monetary base, the money multiplier, and the money supply- (a) The RBI buys bonds in an open market operation. (b) The RBI increases the interest rate it pays banks for holding reserves. (c) The RBI reduces its lending to banks through the repo rate. (d) Rumors about a computer virus attack on ATMs increase the amount of money people hold as currency rather than demand deposits.	**10**	**CO3**
Q 16	Discuss the causes of unemployment and underemployment in developing countries like India. What policy measures would you suggest solving the unemployment problem in these countries?	**10**	**CO3**
Q 17	If the labour ministry decides to raise the age of retirement by a few years because of an increase in longevity, what would be the impact on the current savings in the economy.	**10**	**CO3**
SECTION-D (2Qx15M= 30 Marks)			
Q 18	The economy of **Esanland** is currently experiencing moderate inflation and sluggish GDP growth. In response, the **Central Bank of Esanland (CBE)** decides to reduce the **Cash Reserve Ratio (CRR)** from 10% to 5% to stimulate economic activity through increased credit flow in the banking system. Before this change, the commercial banks in **Esanland** had total deposits of ₹1000 crore and were maintaining the mandatory reserves accordingly. After the CRR cut, commercial banks began issuing more loans, which resulted in a noticeable increase in investment and consumer spending. This situation has raised questions about the **credit creation process** and the **impact of the money multiplier** on the overall money supply. **Answer the following questions based on the above scenario:** (a) Explain the concept of credit creation. How does a reduction in CRR enable banks in **Esanland** to create more credit? (b) Define the money multiplier and calculate its value before and after the CRR change. What does this indicate about the potential expansion of money supply? (c) What are the likely short-term and long-term effects of this monetary policy change on inflation and economic growth in **Esanland**? Justify your answer.	**15**	**CO4**
Q 19	National income accounting is a crucial aspect of macroeconomic analysis that helps policymakers, economists, and stakeholders assess the economic performance of a country. It involves the systematic recording of a nation's income and expenditure to determine its economic health. In the context of India, national income accounting provides insights into the structural dynamics of the economy, sectoral contributions, income distribution, and the overall standard of living. This case study delves into the recent trends in India's national income, the methodologies used for its calculation, and the implications for economic policy and development.	**15**	**CO4**

Overview of India's National Income Trends: In the fiscal year 2023-24, India recorded a Gross Domestic Product (GDP) growth of 7.6% at constant prices, indicating a resilient post-pandemic recovery. This growth was largely driven by strong performances in the manufacturing (9.1% growth) and construction (10.3% growth) sectors. However, Gross National Income (GNI) grew at a slightly slower pace due to increased profit repatriation by multinational corporations operating in India. Net National Product (NNP) at factor cost, or National Income, also rose moderately as government subsidies increased and indirect taxes remained stable.

The rise in per capita income by 6.2% during the same period points to improved average living standards. However, the growth was uneven across states and between rural and urban areas, reflecting persistent regional disparities. While southern and western states like Tamil Nadu, Maharashtra, and Gujarat showed higher growth in per capita income, the eastern and northeastern states lagged.

Methods of Calculating National Income: India employs three primary methods to calculate national income:

1. **Production (Output) Method**: This method calculates the gross value added (GVA) in the economy by aggregating the value of goods and services produced across various sectors. It subtracts intermediate consumption from gross output to avoid double counting.
2. **Income Method**: This approach sums up all incomes earned by factors of production, including wages, rent, interest, and profits. Adjustments are made for depreciation and net indirect taxes to derive NNP at factor cost.
3. **Expenditure Method**: This method totals all expenditures incurred on final goods and services, including consumption, investment, government spending, and net exports (exports minus imports).

The Central Statistics Office (CSO), under the Ministry of Statistics and Programme Implementation (MoSPI), is responsible for compiling and publishing national income data. The estimates are revised periodically based on updated data sources, changes in base year, and methodological improvements to ensure accuracy and relevance.

Challenges in National Income Accounting Despite methodological rigor, several challenges persist in India's national income accounting:

- **Informal Sector Dominance**: A significant portion of India's economy operates in the informal sector, where data collection is difficult. This leads to underestimation or delayed estimation of economic activity.
- **Data Quality and Timeliness**: Delays in data reporting from various sectors and inconsistencies in administrative records affect the accuracy and timeliness of estimates.

- **Base Year Updates**: Frequent updates to the base year (the most recent being 2011-12) are necessary to reflect structural changes in the economy, but they can complicate time-series comparisons.
- **Sectoral Shifts**: Rapid changes in the service sector and digital economy present challenges in capturing value addition accurately, especially in emerging sub-sectors like fintech, e-commerce, and gig work.

Implications for Policy and Planning Understanding national income trends is vital for effective economic planning and policy formulation. For example:

- **Fiscal Policy**: Trends in GDP and GNI help the government in designing tax and expenditure policies. A rising GDP may allow for increased capital expenditure, while a slowdown may necessitate stimulus packages.
- **Monetary Policy**: The Reserve Bank of India (RBI) uses national income data to adjust interest rates and liquidity to manage inflation and stimulate growth.
- **Welfare Programs**: Per capita income and income distribution data guide the targeting and allocation of subsidies, welfare schemes, and poverty alleviation programs.
- **Regional Planning**: Disaggregated national income data by state and region support the design of regional development programs and infrastructure investment.

Recent Developments and Case Examples

- In 2023, the government launched a targeted infrastructure initiative in low-income states like Bihar and Odisha, based on national income data that indicated slower growth in these regions.
- The Pradhan Mantri Awas Yojana (PMAY) was expanded in urban areas where per capita income was rising, but housing affordability was declining, indicating a mismatch between income growth and cost of living.
- The RBI's decision to pause interest rate hikes in early 2024 was influenced by moderate national income growth and stable inflation, as indicated by the national accounts.

Conclusion: National income accounting provides a comprehensive picture of a country's economic health and serves as a cornerstone for economic policymaking. In India, while significant progress has been made in improving the accuracy and transparency of national income estimates, challenges remain due to the informal nature of the economy and rapid structural changes. By continuously refining data collection and estimation methods, and by integrating national income insights into policy, India can ensure more equitable and sustainable economic development.

Based on the above-mentioned information answer the following Questions:

(a) How do the three methods of national income calculation complement each other? Provide examples of when one method may be preferred over the others.

	(b) Discuss the challenges of capturing informal sector data in India. What policy measures could improve the accuracy of national income estimates? (c) Based on this case, how can national income accounting influence regional development planning and welfare policy decisions in India?		