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**Sardar Patel University**

Vallabh Vidya Nagar – 388 120

**FYBBA Examination (CBCS)**

**2<sup>nd</sup> Semester**

**UM02CBBA03/ Macro Economics**

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**Date: 25<sup>th</sup> April 2011**

**Total Marks: 60**

**Time: 4.00 pm to 6.00 pm**

**Note: All the questions are compulsory.**

Draw diagrams and cite examples wherever necessary.

Figures to the right indicate marks.

**Q.1 Fill in the blanks using the appropriate words given in the bracket. (05)**

- A) i) \_\_\_\_\_ (Consumption, Production) Possibility Curve has been a very popular way of describing the problems of what to produce and how to produce.
- ii) Disposable Income = Consumption + \_\_\_\_\_ (Taxes, Savings).
- iii) \_\_\_\_\_ (Socialism, Capitalism) implies equality of incomes and equality of opportunity for all.
- iv) \_\_\_\_\_ (Government, Private) Sector occupies a position of strategic importance in the circular flow of National Income.
- v) Net National Product is also called national income at \_\_\_\_\_ (market prices, factor cost).

**B) What are the basic problems of an Economy? (10)**

**OR**

**Q.1 Fill in the blanks using the appropriate words given in the bracket. (05)**

- A) i) The problem of how to produce means with what combination of \_\_\_\_\_ (raw material, resources) a society decides to produce goods.
- ii) If there is economic growth the Production Possibility Curve shifts \_\_\_\_\_ (inward, outward).
- iii) National Income or National Income at Market Factor cost is equal to Net National Product minus Indirect taxes plus \_\_\_\_\_ (subsidies, depreciation).

- iv) \_\_\_\_\_ (Socialism, Capitalism) is a system of economic organization featured by the private ownership and the use for private profit of man-made and nature made capital.
- v) Capitalism, socialism and Mixed Economic system are the forms of \_\_\_\_\_ (political, Economic) Systems.

**B) Define National Income and discuss various methods of measuring National Income. (10)**

**Q.2 Do as directed. (05)**

- A) i) Consumption function can be explained with the help of Average Propensity to Consume and Marginal Propensity to \_\_\_\_\_ (Consume, Save)
- ii) Saving is defined as that part of income which is not consumed. (True/False)
- iii) When Average Propensity to Consume decreases Average Propensity to Save decreases. (True/False)
- iv) The Investment multiplier expresses a relationship between an initial investment and the final increment in aggregate \_\_\_\_\_ (saving, income).
- v) Keynes has derived an inverse relationship between rate of interest and demand for speculative money. (True/False)

**B) Explain the liquidity preference theory of interest. (10)**

**OR**

**Q.2 Do as directed. (05)**

- A) i) How much consumption rises in response to a given increase in the income, depends upon the propensity to consume or consumption function. (True/False)
- ii) The multiplier is the ratio of change in income to the change in \_\_\_\_\_ (investment, saving).
- iii) \_\_\_\_\_ (Accelerator, Multiplier) is important for the formulation of economic policies to counter act business cycle.
- iv) Under Transactions Motive people demand money to meet day to day expenditure. (True/False)
- v) There is an inverse relationship between the price of bonds and rate of interest. (True/False)

