

Name:

Enrolment No:



**UPES School of Business**  
**End-Semester Examination – May 2024**

**Program: BBA All**  
**Subject / Course: Business Economics II**  
**Course Code: ECON 1006**

**Semester: II**  
**Maximum Marks: 100**  
**Duration: 03 Hours**

**INSTRUCTIONS:**

- **This is a CLOSED-BOOK EXAM. Only calculator is allowed.**
- **Cellphones / Tablets / Laptops / Books / Notes etc. are NOT allowed.**
- **All questions are compulsory.**
- **Your answers must be “brief & to the point.”**

Q.No.	Questions	Marks	COs
<b>SECTION A</b> <b>10Q x 2M = 20 Marks</b>			
<b>Q 1.</b>	<p><b>1.1.</b> Gross Domestic Product (GDP) measures:</p> <p>A) The total market value of all final goods and services produced within a country's borders in a year</p> <p>B) The total income earned by workers within a country's borders in a quarter</p> <p>C) The total value of stocks and bonds traded in a year</p> <p>D) The level of consumer spending in a year</p> <p><b>1.2.</b> Which of the following is a key macroeconomic goal?</p> <p>A) High levels of economic growth</p> <p>B) Reducing the power of large corporations</p> <p>C) Always keeping a balanced government budget</p> <p>D) Reducing the interest rates</p> <p><b>1.3.</b> Inflation is:</p> <p>A) A general increase in the level of prices over time</p> <p>B) A situation of falling prices</p> <p>C) A decline in the purchasing power parity with the American \$ (USD)</p> <p>D) All of the above</p> <p><b>1.4.</b> How is the unemployment rate calculated?</p> <p>A) Dividing the number of unemployed individuals by the total labor force</p> <p>B) Dividing the number of people looking for work by the total population</p> <p>C) Dividing the number of unemployed individuals by the number of employed individuals</p> <p>D) Dividing the number of people not working by the total labor force</p>	<b>20</b>	<b>CO1</b>

- 1.5.** Which of the following is an example of an expansionary fiscal policy?
- A) The government increases its spending
  - B) The government decreases mandated working hours
  - C) The central bank raises interest rates
  - D) The government decreases spending
- 1.6.** What is stagflation?
- A) A period of high inflation and high unemployment
  - B) A period of low inflation and low unemployment
  - C) A period of economic growth and rising prices
  - D) A period of deflation and economic contraction
- 1.7.** The aggregate demand (AD) curve shows the relationship between:
- A) The price level and the quantity of real GDP demanded
  - B) The interest rate and investment
  - C) Unemployment and inflation
  - D) The exchange rate and net exports
- 1.8.** What is the difference between demand-pull inflation and cost-push inflation?
- A) Demand-pull inflation is caused by excess demand, while cost-push inflation is caused by rising production costs.
  - B) Demand-pull inflation is temporary, while cost-push inflation is permanent.
  - C) Demand-pull inflation is caused by monetary policy, while cost-push inflation is caused by fiscal policy.
  - D) Demand-pull inflation is best addressed by supply-side policies, while cost-push inflation is best addressed by demand-side policies.
- 1.9.** The Phillips curve illustrates the short-run trade-off between:
- A) Unemployment and inflation
  - B) Economic growth and interest rates
  - C) The money supply and inflation
  - D) Taxes and government spending
- 1.10.** How does a recessionary gap differ from an inflationary gap?
- A) A recessionary gap occurs when actual output is below potential output, while an inflationary gap occurs when actual output exceeds potential output
  - B) A recessionary gap is caused by a decrease in individual demand, while an inflationary gap is caused by an increase in individual demand
  - C) A recessionary gap leads to rising working hours, while an inflationary gap leads to rising prices
  - D) All of the above

**SECTION B**  
**4Q x 5M = 20 Marks**

<b>Q 2.</b>	Using a free-hand diagram, demonstrate “the circular flow model for an <u>open economy</u> ” which shows how money moves through different economic agents of the society.	5	CO2																																								
<b>Q 3.</b>	<p>Suppose you are the king/queen of the Broccoland, and you have the following information about your economy comprised of just two firms, a broccoli farm that produces fresh broccolis and a vegan restaurant named Broccoli Republic, which is a (3 Michelin-stars) local delight.</p> <table border="1" style="width: 100%; border-collapse: collapse; margin: 10px 0;"> <thead> <tr> <th colspan="2" style="text-align: left;"><b>A. Broccoli Farm</b></th> <th colspan="2" style="text-align: left;"><b>B. Broccoli Republic ***</b></th> </tr> <tr> <th colspan="2"><b>A1. Revenues (Broccoli)</b></th> <th colspan="2"><b>B1. Revenues (Broccoli dishes)</b></th> </tr> </thead> <tbody> <tr> <td style="width: 30%;">Sales to Households</td> <td style="width: 20%; text-align: right;">\$ 10,000</td> <td style="width: 30%;">Sales to Households</td> <td style="width: 20%; text-align: right;">\$ 50,000</td> </tr> <tr> <td>Sales to Foreigners</td> <td style="text-align: right;">\$ 10,000</td> <td></td> <td></td> </tr> <tr> <td>Sales to Broccoli Republic</td> <td style="text-align: right;">\$ 10,000</td> <td></td> <td></td> </tr> <tr> <th colspan="2"><b>A2. Expenses (Broccoli)</b></th> <th colspan="2"><b>B2. Expenses (Broccoli dishes)</b></th> </tr> <tr> <td>Wages</td> <td style="text-align: right;">\$ 10,000</td> <td>Wages</td> <td style="text-align: right;">\$ 15,000</td> </tr> <tr> <td></td> <td></td> <td>Shrimp</td> <td style="text-align: right;">\$ 10,000</td> </tr> <tr> <th colspan="2"><b>A3. Profits (Broccoli)</b></th> <th colspan="2"><b>B3. Profits (Broccoli dishes)</b></th> </tr> <tr> <td>Profits</td> <td style="text-align: right;">\$ 20,000</td> <td>Profits</td> <td style="text-align: right;">\$ 25,000</td> </tr> </tbody> </table> <p><b>3.1.</b> Calculate the GDP of Broccoland, using the <u>final goods approach</u>.</p> <p><b>3.2.</b> Calculate the GDP of Broccoland, using the <u>value-added approach</u>, calculating the value-added both in the (a) Broccoli Farm, and (b) Broccoli Republic.</p> <p><b>3.3.</b> Calculate the GDP of Broccoland, using the <u>factor payments approach</u>.</p> <p><b>Note:</b> You must show each necessary step for all your calculations. Just writing the final answer would earn you a straight zero, even if you guessed it correct!</p>	<b>A. Broccoli Farm</b>		<b>B. Broccoli Republic ***</b>		<b>A1. Revenues (Broccoli)</b>		<b>B1. Revenues (Broccoli dishes)</b>		Sales to Households	\$ 10,000	Sales to Households	\$ 50,000	Sales to Foreigners	\$ 10,000			Sales to Broccoli Republic	\$ 10,000			<b>A2. Expenses (Broccoli)</b>		<b>B2. Expenses (Broccoli dishes)</b>		Wages	\$ 10,000	Wages	\$ 15,000			Shrimp	\$ 10,000	<b>A3. Profits (Broccoli)</b>		<b>B3. Profits (Broccoli dishes)</b>		Profits	\$ 20,000	Profits	\$ 25,000	5	CO2
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<b>Q 4.</b>	<p>Suppose that 25 years ago, Greenland had a Nominal GDP of \$1,000, a GDP Deflator of 200, and a Population of 100. Today it has Nominal GDP of \$3,000, a GDP Deflator of 400, and Population of 150.</p> <p>→ Prove (mathematically) that Greenland’s Real GDP per capita remains unchanged.</p>	5	CO2																																								
<b>Q 5.</b>	What is the definition of money? What are its basic functions?	5	CO2																																								

**SECTION C**

**3Q x 10M = 30 Marks**

<b>Q 6.</b>	<p><b>6.1.</b> State any three challenges of measuring GDP accurately.</p> <p><b>6.2.</b> What role does chain-weighted GDP measure play in adjusting for inflation?</p> <p><b>OR</b></p> <p>The Gross National Happiness Index (GNHI) provides an alternative approach to measuring development and addresses several shortcomings of GDP. For example, while GDP will always rise when industrial production comes at the cost of environmental degradation, GNHI may fall because it takes people's experience of their natural surroundings into account. In addition, while GDP values only market labor, GNHI takes other uses of time into account. Crucially, unpaid work factors into the calculation of total time spent on work, which determines whether an individual has sufficient leisure time. Given the disproportionate burden of domestic work on women, this makes the GNHI more gender-sensitive than GDP. Based on the above broad coverage of GNHI, discuss why do we still need GDP?</p>	10	CO3
<b>Q 7.</b>	<p>We know that for a closed economy, <math>\text{Savings (S)} = \text{Investment (I)}</math>. Suppose the Chinese GDP equals \$10 trillion, consumption equals \$6.5 trillion, the government spends \$2 trillion, and has a budget deficit of \$300 billion.</p> <p style="text-align: right;">[Note: 1 trillion = 1,000 billions]</p> <p>Calculate the following:</p> <p><b>7.1.</b> Public Savings,</p> <p><b>7.2.</b> Tax Revenues,</p> <p><b>7.3.</b> Private Savings,</p> <p><b>7.4.</b> National Savings, and</p> <p><b>7.5.</b> Investment.</p>	10	CO3
<b>Q 8.</b>	<p>How the four money supply measures (<math>M_1, M_2, M_3, M_4</math>) differ from one another? Please explain using examples.</p>	10	CO3

**SECTION D**

**2Q x 15M = 30 Marks**

<b>Q 9.</b>	<p><b>Given Scenario:</b> Imagine you are the founder of an electric vehicle (EV) startup operating in a rapidly evolving industry characterized by technological advancements, changing consumer preferences, and competitive labor markets. In 2024, your company has experienced significant growth, with the demand for EVs surging due to increasing concerns about environmental sustainability and government initiatives promoting clean energy. Amidst this dynamic landscape, your company's nominal profit has shown a notable increase, reflecting the expansion of the EV market and the overall growth of the economy. For instance, your company's nominal profit has risen by 30% over the past year, from \$20 million to \$26 million. However, this growth is accompanied by a measured inflation rate of 8% during the same period. As the leader of your organization, you are now faced with the crucial task of determining the optimal wage rate to offer your workforce, comprising skilled engineers, technicians, and assembly line workers. On one hand, you recognize the importance of attracting and retaining top talent in a competitive labor market to drive innovation and maintain your company's competitive edge in the EV industry. On the other hand, you must ensure that your wage-setting decisions align with the equilibrium conditions predicted by the classical macroeconomics model, accounting for flexible prices &amp; wages, and most importantly, symmetric information prevails.</p> <p><b>9.1.</b> Given this context, how would you approach the challenge of determining the optimal wage rate for your employees? More precisely, what specific data points and economic indicators would you analyze to inform your decision-making process? And, why so?</p> <p><b>9.2.</b> Furthermore, how would you balance the need to remain competitive in the EV market with the goal of fostering long-term profitability as well as sustainability?</p>	15	CO4
<b>Q 10.</b>	<p>Explain whether each of the following events increases, decreases, or has no effect on (a) the unemployment rate and (b) the labor force participation rate in India.</p> <p>[1] After a long search, Sanju gives up looking for a job and retires.</p> <p>[2] Yuvraj finds a job after a long search.</p> <p>[3] Salman finds a part-time job after a long search.</p> <p>[4] Sushil graduates the high school and starts to look for employment.</p> <p>[5] Kangna fails to find a job and relocates to a different country.</p> <p>[6] Romário, an electrical engineer in Sao Paulo, Brazil, is looking for a job in India.</p> <p>[7] Soumyajit becomes an adult but has no interest in working.</p> <p>[8] Nida, a full-time university student, graduates and immediately finds a job.</p> <p>[9] Shaurya quits his full-time job and finds a part-time job.</p> <p>[10] Ladenla finds a job that starts in 4 weeks' time.</p>	15	CO4