



# UNIVERSITY OF THE PUNJAB

B.S. 4 Years Program / Fourth Semester – 2019

Paper: Intermediate Macro Economics

Course Code: ECON-203 / ECO-22318 Part-I (Compulsory) Time: 15 Min. Marks: 10

Roll No. in Fig. ....

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Signature of Supdt.: .....

**ATTEMPT THIS PAPER ON THIS QUESTION SHEET ONLY.**

**Division of marks is given in front of each question.**

**This Paper will be collected back after expiry of time limit mentioned above.**

**Q.1. Encircle the right answer cutting and overwriting is not allowed. (10x1=10)**

1. Mr. Ashraf paid Rs. 1000 per month for house cleaning to a cleaning company in 2017. In 2018, he decided to clean the house himself. Assuming ceteris paribus,
  - a. GDP in 2018 will be Rs. 1000 less than GDP in 2017.
  - b. GDP in 2018 will be Rs. 12,000 less than GDP in 2017.
  - c. GDP in 2018 will be Rs. 12,000 less than GDP in 2017.
  - d. GDP in 2018 will remain the same as GDP in 2017.
2. During a recession,
  - a. Real GDP per capita increases while real GDP per worker decreases.
  - b. Real GDP per capita decreases while real GDP per worker increases.
  - c. both real GDP per capita and real GDP per worker always decrease.
  - d. both real GDP per capita and real GDP per worker always increase.
3. Durables account for a smaller fraction of consumption than non-durables, but durables are more volatile (i.e. variable) than non-durables along the business cycle.
  - a. True
  - b. False
4. If the nominal interest rate is 3% and the real interest rate is 2%, then expected inflation must be
  - a. 3%
  - b. 2%
  - c. 5%.
  - d. 1%
5. Philips curve represents the tradeoff between
  - a. Consumption and Savings
  - b. Unemployment and output
  - c. Inflation and unemployment
  - d. Inflation and output
6. Permanent income hypothesis claims that:
  - a. Everyone should have a guaranteed permanent income.
  - b. Individuals make decisions based on permanent income.
  - c. Permanent income leads to higher savings.
  - d. All of the above.
7. Structural unemployment occurs because:
  - a. Once building structures are completed, workers are no longer needed.
  - b. Certain economic sectors become obsolete after some time.
  - c. Government's policy of hiring freeze.
  - d. None of the above.

P.T.O.

8. Modern central banks set target discount rate based on:
- Expected inflation
  - Demand and supply of money
  - Foreign exchange rate
  - None of the above.
9. Okun's law is the relation between
- Consumption and Savings
  - Unemployment and output
  - Inflation and unemployment
  - Inflation and output
10. A machine is produced in 2010. If this machine is used as an intermediate input in the 2010 production of a final good, then we must:
- exclude its value in computation of the 2010 GDP.
  - include its value in computation of the 2010 GDP.
  - include its value in computation of the 2010 GDP and exclude the value of the final good.
  - None of the above.



**ATTEMPT THIS (SUBJECTIVE) ON THE SEPARATE ANSWER SHEET PROVIDED**

**Question 2**

**Short Questions:** Write a note on the following. (5 x 4 = 20 marks)

1. Why unemployment is not zero even when the economy is booming?
2. Keynesian School of thought
3. Effect of large underground economy on GDP
4. Life-cycle income hypothesis
5. Unemployment in Pakistan

**Question 3**

(10)

Consider the data in the following Table for the year 2017. Firm X produces machines. Some machines are sold to domestic Firm Y, some of the machines are sold to foreigners and some of machines are held as inventory. In all years, the price of machines is 1 dollar. Firm Y uses labor and machines to produce apples. In year 2016, Firm Y owned 30 dollars of machines. In year 2017, Firm Y purchases new machines for 20 dollars from Firm X and hires labor for 15 dollars. Each machine that Firm Y currently operates in its production process produces a 2 dollar sale of apples.

Firm	Transaction	Dollars
Firm X	Wages to Domestic Employees	10
	Sales of Machines to Y	20
	Sales of Machines to Foreigners	6
	Unsold Machines	3
Firm Y	Wages to Domestic Employees	15
	Purchases of Machines from X	20
	Sales of Apples to Domestic Consumers	???

- a. How much does Firm Y sell to domestic consumers (the missing number in the Table)?
- b. Compute GDP for year 2017 using the expenditure approach. ( $Y = C + I + G + X - M$ )
- c. What is the value-added of each firm in this economy?

**Question 4**

(10)

In permanent income hypothesis model:

- a. Explain why the marginal propensity to consume out of current income is positive but low.
- b. If the government takes away Rs. 1000 from all consumers in the first period in the form of lump-sum taxes, and return these Rs. 1000 in the form of transfers in the second period; does consumption in the first period go up, stay the same, or go down? What about consumption in the second period? Explain.

**Question 5**

(10)

What is quantity theory of money? Explain. Discuss the criticism to this theory.