PUSASQF401
Business Economics- Macro

Time: 2 hours
Total Marks: 60 marks

Note:

1) **The candidate has option to either attempt question 4A or question 4B. Rest all questions are mandatory.**
2) **Numbers to the right indicate full marks.**
3) **The candidates will be provided with the formula sheet and graph papers (if required) for the examination.**
4) **Use of approved scientific calculator is allowed.**

Q1. Attempt All Questions **15 Marks**

1) If the marginal social benefit exceeds the marginal social cost then:
a) an increase in output will increase welfare.
b) a decrease in output will increase welfare.
c) welfare cannot be increased.
d) it is impossible to say what will happen to welfare without further information.

2) Which of the following is NOT a reason to restrict international trade?
a) to protect infant industries
b) to reduce reliance on goods with little dynamic potential
c) to prevent the dumping of goods at artificially low prices
d) to increase the speed at which outdated industries decline

3) To improve the cash position of banks, the central bank could do any of the following EXCEPT:
a) buy government bonds from banks with an agreement to sell them back later.
b) issue more government bonds and fewer Treasury bills.
c) buy Treasury bills from the banks before maturity.
d) rediscount Treasury bills.

4) Which of the following are potential aims of supply-side policy?
I to reduce unemployment
II to reduce inflation
III to reduce output
a) l and II
b) II and III
c) I only
d) II only

5) The production of a good results in a negative externality. It is likely that there will be an improvement in economic welfare if the government:

a) gives the producer a subsidy that reflects the marginal benefit derived from the consumption of the good.
b) gives the producer a subsidy that reflects the marginal cost of the externality.
c)eliminates any restrictions on output to allow market forces to work.
d) imposes a tax on the producer that reflects the marginal cost of the externality.

6) Which of the following would constitute a supply-side economic policy for reducing unemployment?

a) increasing social security benefits
b) increasing the money supply
c) reducing marginal taxation to stay in the economy
d) increasing government expenditure aimed at exploiting the multiplier effect

7) One way of reducing the equilibrium (or natural) rate of unemployment would be:

a) to increase income taxes.
b) to increase interest rates
c) to reduce government expenditure.
d) to increase information on job availability.

8) To obtain a measure of gross domestic product at market prices from gross value added at basic prices, it is necessary to:

a) deduct any transfer payments made by the government to households.
b) deduct any indirect taxes and add subsidies on products.
c) add any indirect taxes and deduct subsidies on products.
d) add net income from abroad.

9) Which of the following will result in a decrease in aggregate demand, other things being equal?
a) a rise in imports
b) a fall in savings
c) a fall in interest rates
d) a fall in economic and business uncertainty

10) Which of these would NOT be included in the social costs of the non renewable energy industry?

a) the cost of treating illnesses caused by car exhaust fumes
b) surplus profits of oil suppliers during a fuel shortage
c) the cost of raising capital for investment in oil exploration
d) traffic hazards caused by transporting inflammable materials in petrol tankers

Q2.

A) **5 Marks**

(i) Describe equilibrium (voluntary) unemployment and disequilibrium (involuntary) unemployment.

(ii) Outline TWO reasons which are likely to raise the level of voluntary unemployment in the economy in the long run.

B) **5 Marks**

Discuss the advantages, disadvantages and potential problems associated with using fiscal policy to boost economic activity in an open economy.

C) State arguments for and arguments against globalisation **5 Marks**

Q3.

A) **5 Marks**

(i) Suggest TWO examples of factors that could lead to cost-push inflation and TWO examples of factors that could lead to demand-pull inflation.

(ii) Discuss the demand side explanation of the relationship represented by the Phillips curve.

B) **5 Marks**

Describe what is meant by discretionary fiscal policy.

C) **5 Marks**

Assess why discretionary fiscal policy may not be effective in smoothing fluctuations in the business cycle.

Q4.

A) **15 Mark**

Due to rising number of Covid cases in the second wave, the Government Department**.** Is evaluating Possible forms of intervention that the government may use to influence the market equilibrium and encourage people to eat foods which are considered to be conducive to good health.
As an Economist, help Government with different intervention methods and also specify the Implementation problems?

OR

B)

(1) A government is proposing to build a school under a public-private partnership. A private contractor will be chosen to build and maintain the school buildings and in return the government will pay rent to the contractor. **5 Marks**
Discuss the advantages and disadvantages of this proposal.

(2) Give three reasons why training might improve a country's economic performance. **2 Marks**

(3) Assume that initial deposits are £370 million and banks wish to hold 20% of deposits as cash. **8 Marks**
(i) Calculate the bank deposits multiplier.
(ii) Calculate, showing all workings, the level that total deposits will eventually rise to and the total amount of credit created.
(iii) Describe two complications that banks may experience in practice when seeking to create credit.