

BEM: Assignment 1

1. C
2. C
3. D
4. C
5. C
6. C
7. B
8. C
9. A
10. D
11. C
12. B
13. C
14. C
15. D
16. C
17. D
18. B
19. A
20. B
21. B
22. A
23. D
24. C
25. D
26. A
27. B
28. C

29.

a. $\text{Net domestic income} = 28000 + 24000 + 10000$

$\text{Net domestic income} = \text{Rs } 62000 \text{ crore}$

b. $\text{Gross domestic income} = 62000 + 1700$

$\text{Gross domestic income} = \text{Rs } 63700 \text{ crore}$

c. $\text{Net national income} = 62000 - 300$

$\text{Net national income} = \text{Rs } 61700 \text{ crore}$

30.

- As plastic is causing environmental pollution, it has social cost. Individuals are using plastic as it is convenient for them. Therefore, Marginal Social Cost (MSC) differs from Marginal Personal Cost (MPC).
- Plastic usage cause environmental pollution and animals may die due to consumption of plastic bags. Therefore, there is Marginal external Cost which may be incurred to keep water bodies clean and to protect animals from consumption of plastic.
- Therefore, MSB is lower than MPB. $\text{MSB} = \text{MPB} - \text{MEC}$. This is represented by MSB curve below MPB curve in the diagram. Market will have equilibrium position at Q_{pc} with Price P_{pc} . At socially optimal equilibrium at output Q^* of price P^* , $\text{MSB} = \text{MSC}$.
- The external cost of consumption result in level of output above socially optimum level, $Q_{pc} > Q^*$. From society's point of view, too many plastic bags are being produced and consumed. This results in a dead weight welfare loss caused by overconsumption.

31. The short-run aggregate supply curve shows the aggregate output of the economy that firms are willing to supply in the short run – i.e., between long-run equilibria – for each price level.

The short-run aggregate supply curve slopes upwards because wages are not fully flexible in the short run. This is due to either money illusion, which means that workers base their decisions the level of their money wages as opposed to their real wages, and/or fixed wage contracts, which mean that workers are unable to immediately renegotiate their wages in response to changes in the price level.

Now, an increase in the price level resulting from increased aggregate demand means that firms will enjoy higher marginal revenue for their output.

Given that inflexible wages will not immediately rise to the same extent the marginal cost that firms face will not have risen by as much as marginal revenue.

Therefore, it will be profitable for firms to expand output by employing more workers.

Thus, in the short run higher prices are associated with higher output (and vice versa), and so the short-run aggregate supply curve is upward sloping.

32. Negative Externality Definition - Negative externalities occur when production and/or consumption impose external costs on third parties outside of the market for which no appropriate compensation is paid. This causes social costs to exceed private costs.

An example of a negative externality: People may smoke in public places and ignore harmful impact of toxic passive smoking on non-smokers.

Price related intervention: Fines are imposed if smoking is done in public places

Non-Price related intervention: Specially designed medical care and or programs for smokers to quit smoking.

33. The term actual economic growth refers to increases in the real Gross Domestic Product or real Gross National Product. The economic growth rate measures the percentage increase in the real Gross Domestic Product from one year to the next. The term actual economic growth refers to the increase in the trend rate of real Gross Domestic Product rather than the actual increase in output.

34. Income measure: This measures the total of factor earnings. These are factor payments to land, labour and capital. Transfer payments are not included (to avoid double counting).

Output measure: This measures the value of goods and services produced. To avoid double counting we only include the “value added” component of firms’ output.

Expenditure method: This includes all expenditure (including exports minus imports) in the economy and also what would have to be spent to purchase increases in inventories (or stocks). To avoid double counting, we include only expenditure on final goods.

The three concepts are identically equal. However, in practice difficulties of measurement and collection of data (e.g., the black economy) mean that the three measures will not be equal.