Business Economics - Macro

Assignment 1

Unit 1 & Unit 2

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1. C → If govt raises output above free market level, ...
2. C → gap between S + tax and S will be at Rs 5 at each quantity.
3. C → Marginal revenue = Marginal cost
4. D → cannot be supplied by the market.
5. A → Rising trade ratios for all countries.
6. C → Rise and real GDP will rise
7. B → provide consistency with regards to taxation & subsidies.
8. C → To impose trade sanctions on countries which it disagrees politically
9. D → Petrol consumption requires external social costs.
10. D- Nominal GDP uses current prices, real GDP uses constant prices.
11. C- Periodic fluctuations of output around the long run trend.
12. C - Net Income from abroad.
13. C - This could lead to 'black' market when cylinders are sold at more than ceiling price
14. C- 120 cr.

15. D - 800 cr

16. C - country X has comparitive advantage

17. D - 280 million.

18. Calculate the foll.

a) Net Domestic Income = Mixed income of self employed + operating surplus + compensation of employees.

NDI = 28000 + 10000 + 24000

= 62000

b) Gross Domestic Income = Net Domestic income + depreciation

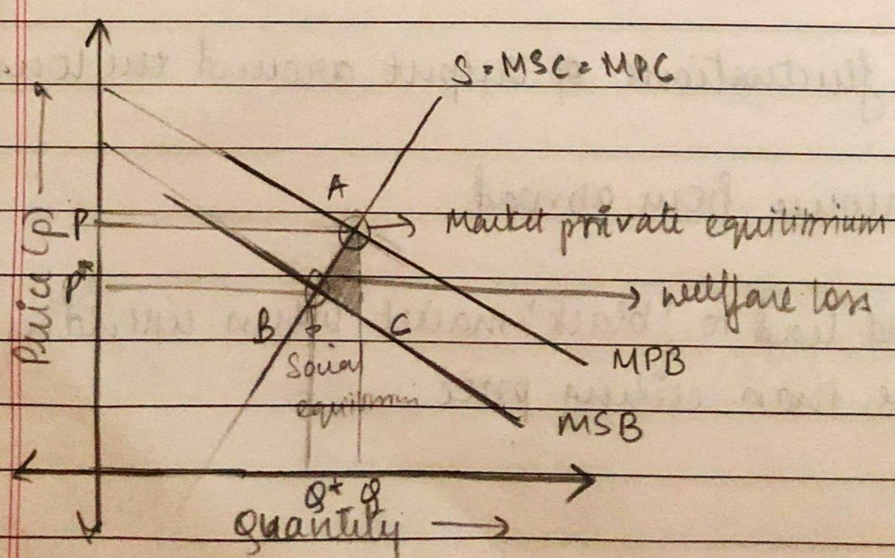
= 62000 + 1700 = 63700

c) Net National Income = Net domestic income + net factor income from abroad.

= 62000 - 300

= 61700

19.



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→ Plastic poses a threat to society. It is not biodegradable and hence has adverse effects to marine life, livestock and environment.
→ To curb these disadvantages, additional measures need to be taken that produces external costs.
→ As observed, marginal social costs of using plastic is greater than marginal private cost incurred.
→ However benefit of using plastic cannot be ignored by the consumers. Plastic is cheap, readily ~~availabel and~~ available & easy to use.
→ Hence Marginal Private benefit is greater than Marginal ~~Private~~ Social cost.
→ If there were no externalities, optimum quantity Q^* would be produced at price P^*.
→ Since plastic poses negative consumption externality, it results in overallocation & production at Q.
→ This results in dead weight welfare loss as marked in diagram by points ABC.

20) → Aggregate supply curve denotes amount of goods and services that firms are willing to ~~prod~~ supply at each level of prices.
→ When we construct short run supply curve - we assume other things to remain constant.
→ Short run aggregate supply curve is upward sloping because of two reasons:
(a) Diminishing returns - Some factors, as mentioned are fixed in supply. Firms experience diminishing marginal product from other factors & hence upward sloping marginal cost curve.

(b) Growing shortages of certain variable factors
- As the produce increases, inputs become short in supply. Therefore there is a direct relationship between upward sloping curve & short run aggregate supply.

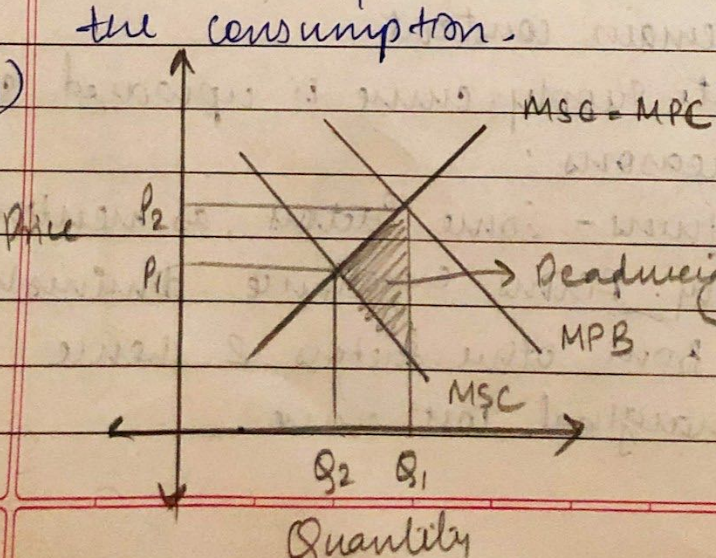
21) ~~22)~~ (i) When a third party suffers due to actions and transactions between the consumer & producer, it produces a negative externality.

→ Smoking i.e consumption of cigarette by another party creates negative externality. It will ~~create~~ lead to passive smoking by third party which is injurious and prone to heart & lung diseases.

→ This will significantly increase the health care costs & its prices. This affects the society in a negative way.

(ii) Price Intervention: Higher indirect taxes ~~on~~ ~~subsidies~~ on production of cigarettes to influence people to stop smoking.
Non price Intervention - Creating awareness in form of advertisements to influence the consumption.

(iii)



22) → Actual ~~eonomon~~ economic growth is measured by annual percentage change in country's real national output.

→ Potential economic growth is measured by the estimated annual change in country's potential level of national output.

23) a) Income Method: Here we add up all incomes earned during production of goods and services in the country for a given year. Incomes like Rent, wages, salaries, interest & profit.

→ Here double counting can ~~be~~ take place if we count same factor income twice. eg. The wage or salary given to worker who uses it to buy goods and thus it counts as profit of business.

b) Product Method: Summation of ~~all~~ the value of all the goods & services produced within the country during a specific year. This is the most direct & basic method of calculating GDP.

→ Problem of double counting arises as one industry's output is another industry's input.

→ To avoid this, modified version of this method called 'value added approach' can be used.

c) Expenditure method: Add up all flows of expenditure needed to purchase the nation's output.

$GDP = C + I + G + (X - M)$

C → consumer expenditure

I - Investment Expenditure
G - Government expenditure
X - Income from exports
M - Expenditure on imports.

→ By principle answers under all methods should be the same but they aren't because they consider different aspects.
→ Income method considers factor payments, Output method considers value of produced goods while expenditure method takes into account the amount spent on expenditure.
→ Hence, answers under each method would be different.