ARYAN TRIPATHI
19

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BUSINESS ECONOMICS - MACRO
ASSIGNMENT 1 (UNIT 1 & 2)

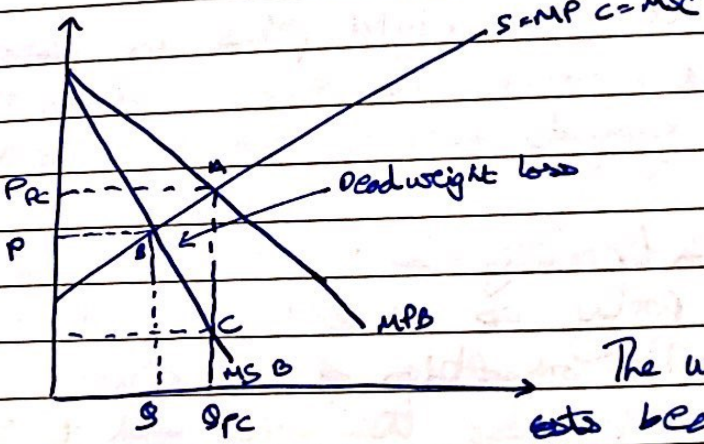
1. C
2. C
3. C
4. C
5. C
6. C
7. D
8. D
9. D
10. D
11. D
12. C
13. D
14. C
15. D
16. B
17. 120+60 +70 +20 +10 −40 −10 = 270
    C

18.
a) Net Domestic Income
= 28000 + 10000 + 24000
= ₹ 62000 cr.

b) Gross Domestic Income = 62000 + 1700
= 283700 cr.

c) Net national income = 62000 − 300
= ₹ 61700 cr.

19.



Q = social optimum level of output at price P

Q_{PC} = market level of output at P_{PC}

The use of plastic ~~causes~~ has social costs because it causes environmental pollution. ∴ usage of plastic causes the MSC to be higher than that of MPC. Animals may die from consuming plastic. There are therefore external costs that

may be incurred to keep water bodies clean.
∴ the MSB of consuming plastic is lower than the MPB. without the consideration of externalities the market will have an equilibrium at Ppc & Qpc. At socially optimum equilibrium the price will be p & output will be Q.
The external costs result in output above the socially optimum level. From society's P.O.V too many plastic bags are being produced & consumed. This results in a deadweight loss shown by triangle ABC

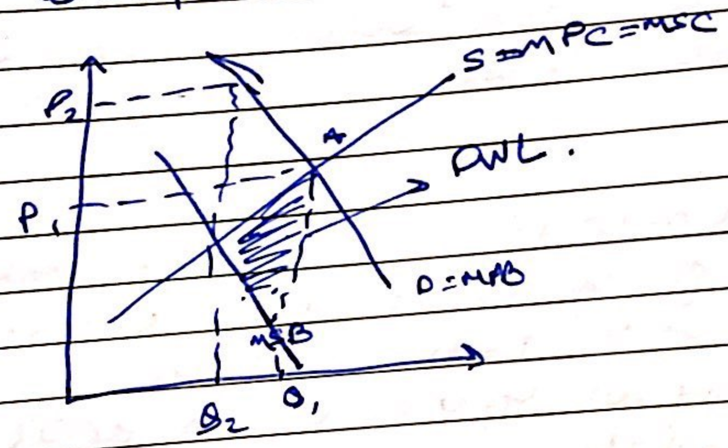
(20) Short run aggregate supply curve shows the aggregate output of an economy that firms are willing to supply in the short run. The curve is also upward sloping because the quantity supplied increases when the price rises. ~~In~~ short run firms have fixed factors of production (usually capital). Since wages are not fully flexible in the short run. This is because wages cannot immediately be renegotiated ~~as~~ when prices change. MC will also not rise as much as MR.
∴ in the short run higher prices are associated w/ higher output (& vice versa) and so the short-run aggregate supply curve is upward sloping.

(21) A negative externality is the cost that is suffered by a 3rd party as a consequence of an economic transaction. The consumption of cigarettes may cause respiratory problems, this will lead to ill health which will in turn cause productivity to decrease. If productivity decreases, the COP for firms will

increase which will cause prices to increase. If prices ↑, the standard of living will ↓. It can also put pressure on the health care industry.

b) The govt can implement higher levels of indirect taxes on the consumption of cigarettes. They can also conduct advertising campaigns to change people's preferences & educate them on side effects of smoking & tobacco consumption.

c)



(22) Actual growth refers to increases in real GDP or GNP. It measures the % ↑ in real GDP from one year to the next. It can also refer to the increase in trend rate of real GDP rather than actual ↑ in output. potential economic growth refers to the speed at which the economy could grow & so it measures the % ↑ in an economy's capacity to produce.

(23) methods of measuring national income:

1. product method: national income is measured as a flow of final goods & services. Final goods

are those that are directly consumed & not used in further production process. To avoid double counting, we use the value-addition method in which not the whole value of a commodity but the value of final good/value of intermediate good at each stage of production is calculated & summed up.

(2) Income method: national income is measured as a flow of factor incomes. There are 4 F.O.Ps. Labour gets wages & salaries. Land gets rent, capital gets interest & entrepreneurship gets profit.

(3) Expenditure method: national income measured as a flow of expenditure. GDP is the sum-total of private consumption expenditure.
Govt. consumption expenditure, gross capital formation (Govt. & private) & net exports.

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