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PROGRAM:BBA(SECTION B)

2ND SEMESTER

SUBJECT:MACROECNOMICS

DATE:19,APRIL 2020

**Q1:**select the best suitable answer.

1.The circular-flow of income diagram is a-----------

Ans.(a)

2.The two loops in the circular-flow diagram represent----

Ans.(a)

3.During a recession the economy experiences-------

Ans.(d)

4.Real GDP-----------

Ans.(d)

5.if we deduct direct taxes from the personal income,we get-----

Ans.(b)

6.GNP includes

Ans.(d)

7.which of the following is not macroecnomics---

Ans.(d).

8.in equilibrium of national income------

Ans.(b).

9.For 3 sector economy, the income equation is----

Ans.(a).

10.Which type of unemployment is considered as a health sign for economy?

Ans.(d).

**Q2:**Give brief answers of the following questions.

1.Thinking about the definition of GDP,explain why transfer payments (zakat,donation etc)are excu

Luded from the calculation of GDP?

Ans.Few government spending like spending on social security is a form of tranfer payment,which GDP does not count in its measure .because transfer payment are not made for a currently produced good or service,they alter a households income,but don’t alter an economys production and GDP measures economy production.

**2.**why net national product (NNP) isnt commonly used for the calculation of national income figures?

Ans.In national income accounting,net national income(NNI) is net national product (NNP) minus indirect taxes.Net national income encompasses the income of households,businesses,and the governament.Net national income is defined as gross domestic product plus net recipits of wages,salaries and property income from abroad,minus the desreption of fixed capital assests (dwellings,buildings,machinery,transport equipment and physical infrastructure) through wear and tear and obsolescence.

It can be expressed as

NNI=C+I+G+(NX)+ net foreign factor income – indirect taxes- manufactured capital desrecption.

3.what is the concept of “natural rate of unemployment”?

Ans.The natural rate of unemployment is the name that was given to a key concept in the study of economic activity ….The natural rate of unemployment is a combination of frictional and structural unemploymemt that persists in an efficient,expanding economy when labor and resourse market are in equilibrium.

4.Briefly discuss okun’s law.

Ans**.Okun’s law.**

Okun’s law pertain to the relationship between the U.S.economy’s unemployment rate and its gross national product (GNP).It states that when unemployment falls by 1% GNP rises by 3% however,the law only holds true for the U.S economy and only applies when the unemployment rate is between 3% and 7.5%

**Okun’s law explaned.**

Okun’s law can also pertain to gow a rise in employment affects gross domestic product (GDP), where a percentage increase in unemployment causes a 2% fall in GDP.

5.Classical macroecnomics considers the two assumption of

**.**Money as just the medium of exchange and autonomic adjustment macanism

Briefly discuss these two.

Ans.Two fundamental assumption of classical macro theory are (1) that equilibrium values of most real variables can be determined without knowing the price level or the inflation rate;and (2)that the equilibrium value of the price level and the inflation rate are determind primarly by the central bank’s supply of.

**Q3.(a)**Explain the “consumption equation “ as given by keynes in his theory..

Ans.The consumption function or keynesian consumption function is an economy formula representing the functional relationship between total consumption and real national income .

Where C = Aggregate consumption of the economy .b=marginal propensity to consume .Y= real income or the total output.

1.What is the equilibrium level of income?

Ans.The equilibrium level of income refers to when an economy or business has an equal amount of production and market demand…An economy is said to be at its equilibrium level of income When aggregate supply and aggregate demand are equal.in other word’s its os expenditure.

2.What is the level of savings at equilibrium level?

Ans.According to this approach of equilibrium the equilibrium is reached only when investment (l) equal savings (s) because at this level there is no tendency for income and output to change .

In the diagram the equilibrium is at E1 where savings intersects investment curve at this point,I=S.