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Submitted to: Ms. Wajiha Amin

Total Marks: 30

Q1: Select the best suitable answer (10).

1. The circular-flow of income diagram is a

- a. visual model of how the economy is organized.
- b. visual model of the relationships among money, prices, and businesses.
- c. model that shows the effects of government on the economy.
- d. mathematical model of how the economy works.

Correct option is “A”

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

- a. (i) the flow of goods and (ii) the flow of services.
- b. (i) the flow of dollars and (ii) other financial flows.
- c. (i) inputs into production processes and (ii) outputs from production processes.
- d. (i) the flows of inputs and outputs and (ii) the flow of dollars.

Correct option is “C”

3. During a recession the economy experiences

- a. rising employment and income.
- b. rising employment and falling income.
- c. rising income and falling employment.
- d. falling employment and income.

Correct option is “D”

4. Real GDP

- a. moves in the same direction as unemployment.
- b. is not adjusted for inflation.
- c. also measures real income.
- d. is the same as nominal GDP

Correct option is “B”

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

- a. Per capita income
- b. Disposable personal income

- c. Net national income
- d. Personal saving

Correct option is “B”

6. GNP includes,
- a. A loan from bank
 - b. Gifts and donations
 - c. Parents spending and scholarships
 - d. Commission payments

Correct option is “A”

7. Which of the following is not macroeconomics.

- a. Inflation
- b. Unemployment
- c. Output level of the economy
- d. Level of wages in a factory

Correct option is “D”

8. in equilibrium of national income.

- a. $S > I$
- b. $S = I$
- c. $S < I$
- d. $S - I = 1$

Correct option is “B”

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

- a. $Y = C + I + G$
- b. $Y = C - I + G$
- c. $Y = C + I + T$
- d. $Y = C + I$

Correct option is “A”

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

- a. Structural unemployment
- b. Classical unemployment
- c. Seasonal unemployment
- d. Frictional unemployment

Correct option is “D”

Q2: Give brief answers to the following questions. **(2+2+3+2+3+3=15)**

1. Thinking about the definition of GDP, explain why transfer payments (zakat, donations etc) are excluded from the calculation of GDP?

Answer:

Because in calculating GDP we only calculate the items that are newly produced in the economy in the given year and zakat and donations are not things which are produced in the economy rather they are just a part of the wealth which is already calculated.

2. Why Net National Product (NNP) isn't commonly used for the calculation of national income figures?

Answer:

The NNP is the most accurate way of calculating NI but it's not common and that is because it's very difficult to calculate NNP. When calculating NNP we take into consideration the depreciation of the equipment that is used in producing the goods in the economy which is very difficult to find out.

3. The Bureau of Labor Statistics announced that in December 1998, of all adult Americans 138,547,000 were employed, 6,021,000 were unemployed and 67,723,000 were not in the labor force. How big was the total labor force? What was the unemployment rate?

Answer:

Total labor force= $138,547,000 + 6,021,000 = 144,568,000$

Unemployment Rate= $138,547,000 / 6021000 = 23\%$

4. What is the concept of "natural rate of unemployment"?

Answer:

it is the rate which always exists in the economy and is the combination of frictional and structural unemployment. At this rate labor market and product market are in equilibrium here inflation is stable. It shows the highest sustainable level of employment and correspond with the nation potential output.

5. Briefly discuss Okun's Law.

Answer: Okun's law:

Author Okun in 1960 present this law which describes the relationship between the country's unemployment rate and growth rate at an economy it tells how much the country's GDP will lost when unemployment rate is above its natural rate.

The law states that for every one percent increase in unemployment will result in two percent loss in GDP relative to the potential GDP.

6. Classical macroeconomics considers the two assumptions of

Answer:

Money as just the medium of exchange and Automatic adjustment mechanism

Briefly discuss these two.

Money as the medium of exchange: Although money has many functions but its primary role is that people use it as a medium of exchange that is people use money to purchase goods and services. Money is whatever a grocery store or a theatre accepts as payments. In today's economy PKR is one form of money, the balances in the people checking accounts are also money because many goods and services can be bought by writing a check or debiting an account electronically.

Automatic adjustment mechanism: this means that prices can be set easily with money for example every currency has its value and prices and salaries are automatically set keeping the value of the money in mind. It has made life easier because when it was the era of barter system; there must be a double coincidence of wants and was difficult to know the value of something but with the intro of money now everything's prices are set automatically.

Question no: 3

OR

Briefly explain some of the uses of national income figures? (5)

Answer: some uses of national income figures are described below.

1: Measure of economic growth: the national income figures will help a country in determining the economic growth. This will help the government to figure out if the economy is performing good from the past or they are on the right track or not because we can easily compare the figures from the past and current year and see if we are getting better or we are going in the wrong direction.

2: per capita income: the national income figures will help us in determining the per capita income of the country that is when we get the figures we divide it on the number of people in the country and find the per capita income.

3: Indicator of failure or success in the planning: it's the most important function because if we see that national income figures are not better than the previous year there must be some problems in the overall planning and strategies and if the economy is performing better than previous means that we must carry on with our existing plans

4: production performance: when analyzing the NI figures we can easily trace the contribution of different sectors of the economy to national income and see which sector is performing good and which is not.

5: Economic Comparison: NI figures makes the comparison of the international economies possible we can conveniently compare economies based on the national income figures of the same year.