FYBA Eco I Sem II

Set.- ~~III~~ IV 52161

1

[Time: 3 Hours] [Marks: 100]

Please check whether you have got the right question paper.

N.B: 1. All questions are compulsory.

2. Each question carries 20 marks.

3. Draw neat diagrams wherever necessary.

4. Use of simple calculator is allowed.

1. Attempt any two of the following:

a. Explain the GDP, GNP and NNP concepts of National Income.

- GDP – Market values of final goods and services produced in any economy during a given period of time. GDP =Y=C+I+G+(X-M) GNP: GNP,
- GNP – Money values of goods and services produced by a country's factors of production where they are located in a given period of time. When subtract depreciation from GNP, we get Net National Product. GNP+ C+I+G+(X-M) + (R-P)

GNP=GDP+ Factor Payments from Abroad-Factor payment to Abroad

- NNP= GNP - depreciation

b. write a note on GDP at Purchasing Power Parity (PPP)

Purchasing power parity (PPP) is an economic theory that states that the exchange rate between two currencies is equal to the ratio of the currencies' respective purchasing power. An example would be a liter of Coca-Cola if it costs 2.3 Euros in France and 2.00$ in the United States. The PPP for Coca-Cola between France and the USA is 2.3/2.00, or 1.15. This means that for every dollar spent on a liter of Coca-Cola in the USA, 1.15 Euros would have to be spent in France to obtain the same quantity and quality – or, in other words, the same volume – of Coca-Cola.

c. Explain sectorial composition of GDP of India.

Indian Economy is classified in three major sectors;

1. Agriculture & Allied Sector: This sector includes forestry and fishing also. At the time of Indian independence this sector had biggest share in the Gross Domestic Product of India. But year by year its contribution goes on declining and currently it contributes only 17% of Indian GDP at current prices.

2. Industry Sector: This sector includes 'Mining & quarrying', Manufacturing (Registered & Unregistered), Gas, Electricity, Construction and Water supply. Currently it is contributing around 31% of the Indian GDP (at current prices).

3. Services Sector: Services sector includes 'Financial, real estate & professional services, Public Administration, defence and other services, trade, hotels, transport, communication and services related to broadcasting. Currently this sector is the backbone of the Indian economy and contributing around 53% of the Indian GDP.

2

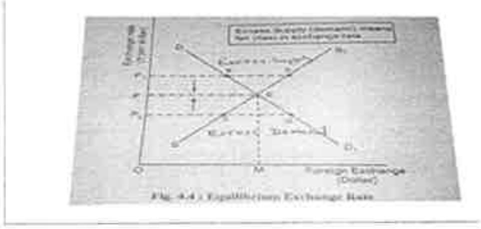
2. Attempt any two of the following:
a. Write a note on National income identity in an open economy.
The national income identity says that gross domestic product is given by consumption expenditures, plus investment expenditures, plus government expenditures, plus exports, minus imports. This is written as GDP = C + I + G + EX − IM.
b. Explain the concepts of investment multiplier.
Keynes' multiplier is the ratio of the total change in income to the initial change in investment. In other words, it is the ratio expressing the quantitative relationship between the increase in national income and the increase in investment which induces the rise in income.
Arithmetically: $\Delta Y = K.\Delta I$ K (multiplier) is equal to the ratio of the increase in income to the increase in investment which is responsible for the rise in income.
c. Explain the composition of savings in India.
Composition of Saving: Domestic savings accrue from three sectors, viz. i. Government or public sector, ii. Private corporate sector, iii. The household sector
3. Attempt any two of the following:
a. Define public goods and explain the features of it.
A public good is a product that one individual can consume without reducing its availability to another individual, and from which no one is excluded. The two features of public goods are:-
1. Non-rivalry: This means that when a good is consumed, it doesn't reduce the amount available for others. – E.g. benefiting from a street light doesn't reduce the light available for others but eating an apple would.2. Non-excludability: This occurs when it is not possible to provide a good without it being possible for others to enjoy.
b. Explain the merits of Direct Tax.
1. Equity, 2. Certainty, 3. Elasticity, 4. Productivity, 5. People's Consciousness.
c. What is GST? State its advantages.
Goods and Service Tax can be defined as a kind of Value Added Tax imposed on various goods and services. GST is a consumption based tax/levy. This tax is paid by the consumers of goods and services and collected and forwarded to the government by the business entities.
Advantages:-
-Simplified and Transparent tax system to all
-Reduction in Sales price of Mandatory goods due to less GST Rates and elimination of cascading
-One Tax Rate throughout the country results in Same Price of goods
-With New type of Tax there will be Increase in employment opportunities
-Double taxation will be End. No Tax over the Tax Now
-Advantages of GST to Trade is that it will promote Exports with single type of Tax
-One India One Market
-Simplified Tax System.
-Get Input credit on all Purchases and services

4. Attempt any two of the following:
a. What is Balance of Payments?
The balance of payments is defined "as a systematic record of all the economic transactions between the residents of the reporting country and the residents of the rest of the world". The time period for the balance of payments is generally one financial year or the calendar year
b. Explain the types of disequilibrium in Balance of Payments.

1. Short run disequilibrium,
2. Long run disequilibrium,
3. Cyclical disequilibrium,
4. Structural disequilibrium.

c. Explain determination of Exchange Rate.

An exchange rate is the rate at which one currency is exchanged for another or the price of one currency in terms of another currency. A nation's demand for exchange arises from the desire to import goods and services and invest in other nations and from speculators when they expect the foreign currency to appreciate. A nation's supply of foreign exchange, on the other hand, result from exporting goods and services to other nations, from inflow of foreign investments and from sale of the foreign currency by speculators when they expect the foreign currency to depreciate. The determination of the exchange rate with help of diagram



5. Attempt any two of the following:

a. Find GDP deflator for each year.

GDP Deflator= Nominal GDP/Real GDP * 100

Year	GDP at current prices	GDP at constant price	Px/Px base *100= Deflator
2014-15	80000	80000	100
2015-16	92000	84000	109.52
2016-17	100000	92000	108.70
2017-18	106000	102000	103.92

b. Given below is the level of consumption expenditure of an economy. Fill the blanks in the table.

Income (Y)	ΔY	Consumption (C)	Δ C	**Savings (S) (S=Y-C)**	**Marginal Propensity to Consume MPC = ΔC /Δ Y**
0	--	120	--	**-120**	--
300	300	300	180	**0**	**1.67**
600	300	480	180	**120**	**1.67**
900	300	660	180	**240**	**1.67**
1200	300	840	180	**360**	**1.67**

4

c. Note on Revenue and Capital Expenditure of the government.
Capital expenditures are for fixed assets, which are expected to be productive assets for a long period of time. Revenue expenditures are for costs that are related specific revenue transactions or operating periods, such as the cost of goods sold or repairs and maintenance expense. Revenue expenditure includes civil expenditure (e.g., general services, social and community services and economic services), defense expenditure, etc. Capital expenditure comprises expenditures incurred on social and community development, economic development, defense, general services, etc.

d. From the following summary of balance of payments.
i. Calculate trade account balance
ii. Calculate current account balance
iii. Calculate capital account balance

Receipt (Credit)	Rs. Crores	Payments (Debits)	Rs. Crores
Exports of goods	2000	Imports of goods	1750
Export of services	2250	Imports of services	2050
Interest, profits and Dividends received	300	Interest, profits and dividends paid	400
Unilateral receipts	500	Unilateral Payments	350
Foreign Investments	2200	Investment abroad	2000
Long term borrowing	2000	Long term lending	2100

i) Compute trade account balance: = Exports of goods - Imports of goods
=2000-1750
=250 (Surplus)

ii) Compute current account balance:
Exports of goods +Export of services + Interest, profits and dividends received + unilateral receipts (Credit)
=2000+2250+300+500
=5050

Import of goods + Imports of services + Interest. Profits and dividends paid + unilateral payments (Debit)
=1750+2050+400+350
=4550

Balance is 5050-4550 =500 (Surplus)

iii) Compute capital account balance:
Foreign investments + Long term borrowing (Credit)
=2200+2000 = 4200

Investment abroad + Long term lending (Debit)
=2000+2100 =4100

Balance is 4200-4100 = 100 (Surplus)
