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(FOR THE CANDIDATES ADMITTED

24UEO305

DURING THE ACADEMIC YEAR 2024-2025 ONLY)

REG.NO. :

N.G.M. COLLEGE (AUTONOMOUS) : POLLACHI

END-OF-SEMESTER EXAMINATIONS: NOVEMBER 2025

BA ECONOMICS

MAXIMUM MARKS: 75

SEMESTER-III

TIME : 3 HOURS

PART-III

MACRO ECONOMICS

SECTION – A

(10 X 1 = 10 MARKS)

ANSWER THE FOLLOWING QUESTIONS.

(K1)

1. In a two-sector model, the main sectors are: _____
 - a) Households and government
 - b) Households and firms
 - c) Firms and foreign sector
 - d) Government and foreign sector
2. Keynes emphasized that employment depends primarily on _____
 - a) Money supply
 - b) Aggregate supply
 - c) Aggregate demand
 - d) Wage rates
3. The ratio of total consumption to total income is called:
 - a) Average Propensity to Consume
 - b) Marginal Propensity to Consume
 - c) Marginal Propensity to Save
 - d) Average Propensity to Save
4. An Indian company establishing a manufacturing unit in Gujarat is an example of _____
 - a) Foreign investment
 - b) Induced investment
 - c) Autonomous investment
 - d) Domestic investment
5. The IS curve shows combinations of _____
 - a) Income and interest rates that ensure money market equilibrium
 - b) Income and interest rates that ensure commodity market equilibrium
 - c) Consumption and savings equilibrium
 - d) Government spending and taxation

ANSWER THE FOLLOWING IN ONE (OR) TWO SENTENCES

(K2)

6. Define macro economics.
7. What are the drawbacks of classical theory?
8. Mention one measure to raise the propensity to consume.
9. Give one example of foreign investment.
10. Name one factor that causes the IS curve to shift to the right.

SECTION – B

(5 X 5 = 25 MARKS)

ANSWER EITHER (a) OR (b) IN EACH OF THE FOLLOWING QUESTIONS. (K3)

11. a) Indicate the importance of Macro Economics.
(OR)

b) Explain the concept of circular flow of income with the help of a diagram.

ETHICAL PAPER

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12. a) Examine the importance of effective demand.

(OR)

b) Discuss the Keynesian Theory of Employment to UDCs.

13. a) Discuss the major determinants of the Consumption Function in an economy.

(OR)

b) What are the methods of measuring the marginal propensity to consume?

14. a) Differentiate between public investment and private investment.

(OR)

b) Define the acceleration principle and explain its significance in economic theory.

15. a) Describe the IS function. How is the commodity market equilibrium determined using the IS curve?

(OR)

b) Point out the weakness of IS-LM general equilibrium approach.

SECTION – C

(5 X 8 = 40 MARKS)

ANSWER EITHER (a) OR (b) IN EACH OF THE FOLLOWING QUESTIONS.(K4 (Or) K5)

16. a) Explain briefly the nature and scope of macro economics.

(OR)

b) Analyse the difficulties involved in national income estimation.

17. a) Distinguish between aggregate demand and aggregate supply.

(OR)

b) Discuss the keynes' criticisms of classical theory of employment.

18. a) Distinguish between Average Propensity to Consume (APC) and Marginal Propensity to Consume (MPC).

(OR)

b) Describe Keynes' Psychological Law of Consumption.

19. a) Describe the different kinds of investment with suitable examples.

(OR)

b) Explain the concepts of Marginal Efficiency of Capital (MEC) and Marginal Efficiency of Investment (MEI).

20. a) Explain the LM function and discuss the factors that determine money market equilibrium.

(OR)

b) Illustrate with diagrams how equilibrium in both the commodity market and money market leads to overall macroeconomic equilibrium.

SCHEME OF VALUATION

COURSE NAME : B.A. Economics

SUBJECT CODE : 24UEO305

TITLE : MACRO ECONOMICS

SECTION – A

Key Answer:-

1. b) Households and firms
2. c) Aggregate demand
3. a) Average Propensity to Consume
4. d) Domestic investment
5. b) Income and interest rates that ensure commodity market equilibrium
6. Macroeconomics is the branch of economics that studies the economy as a whole, dealing with aggregates like national income, employment, inflation, and growth.
7. It assumes full employment and ignores unemployment and rigidities in the economy.
8. Redistribution of income.
9. Foreign Direct Investment (FDI) in India's automobile sector.
10. Increase in government expenditure.

SECTION – B

11. a) Importance of Macro Economics

- Studies aggregate behavior of the economy rather than individual markets.
- Helps in understanding national income, employment, and output.
- Guides government policy on fiscal, monetary, and trade matters.
- Analyzes inflation, unemployment, and economic growth.
- Provides tools for stabilization and planning.

OR

11. b) Circular Flow of Income

- Shows the movement of money, goods, and services between households and firms.
- Two-sector model: Households supply factors of production → Firms produce goods → Households spend income on goods → Firms earn revenue.

12. a) Importance of Effective Demand

- Determines level of employment and output in the economy.
- Encourages investment by firms.
- Prevents unemployment due to insufficient demand.
- Central concept in Keynesian macroeconomics, highlighting government role in stimulating demand.

OR

12. b) Keynesian Theory of Employment to UDCs

- Explains involuntary unemployment in underdeveloped countries.
- Employment depends on effective demand, not wage flexibility.
- Suggests public investment to increase demand and reduce unemployment.
- Emphasizes government intervention for economic growth.

13. a) Major Determinants of Consumption Function

- Income level: Higher income → Higher consumption.
- Wealth and assets: Greater wealth increases consumption.
- Interest rates: Higher rates reduce consumption.
- Price levels and inflation expectations.
- Consumer confidence and expectations.

OR

13. b) Methods of Measuring Marginal Propensity to Consume (MPC)

- Average Propensity to Consume (APC) method: Change in consumption / Change in income.
- Regression analysis method: Statistical estimation using consumption and income data.
- Graphical method: Slope of the consumption function curve.

14. a) Public vs Private Investment

Feature	Public Investment	Private Investment
Initiated by	Government	Private individuals/firms
Purpose	Social welfare, infrastructure	Profit maximization
Examples	Roads, schools, hospitals	Factories, machinery, businesses
Risk	Social, political	Market and business risk

OR

14. b) Acceleration Principle

- Definition: Investment demand depends on changes in output or consumption.
- Significance: Small increases in demand → Large increases in investment.
- Explains business cycles and fluctuations in capital goods demand.

15. a) IS Function and Commodity Market Equilibrium

- IS curve: Represents all combinations of interest rate (r) and income (Y) where the goods market is in equilibrium.
- Determination:
 - Equation: $Y = C + I + G$

- Equilibrium occurs when planned investment = planned saving.
- Graph: Downward sloping curve in r-Y space; higher interest → lower investment → lower income.

OR

15. b) Weakness of IS-LM Approach

- Ignores price level changes (short-run fixed prices).
- Assumes closed economy in basic model.
- Overemphasizes interest rate in investment decision.
- Cannot handle expectation and uncertainty fully.

SECTION –C

16. a) Nature and Scope of Macro Economics

- Nature: Studies aggregates like national income, employment, output, price level.
- Scope: Includes economic growth, inflation, unemployment, fiscal and monetary policy, balance of payments.
- Helps government and policymakers in stabilizing economy.

OR

16. b) Difficulties in National Income Estimation

- Informal sector and unrecorded transactions.
- Double counting of goods and services.
- Valuation of non-market services.
- Data collection errors and outdated statistics.
- Price changes (inflation) and exchange rate issues.

17. a) Aggregate Demand vs Aggregate Supply

Feature	Aggregate Demand (AD)	Aggregate Supply (AS)
Meaning	Total demand for goods & services	Total output supplied in economy
Determined by	Consumption, investment, govt spending	Production capacity, technology
Slope	Downward	Upward (short run)
Effect on economy	Determines employment & output	Determines prices & real output

OR

17. b) Keynes' Criticisms of Classical Theory

- Wage and price flexibility does not guarantee full employment.
- Savings may not equal investment automatically.
- Classical theory ignores effective demand.
- Cannot explain persistent unemployment in underdeveloped economies.

18. a) APC vs MPC

Feature	Average Propensity to Consume (APC)	Marginal Propensity to Consume (MPC)
Definition	Consumption/Income	Change in consumption / Change in income
Measures	Overall consumption behavior	Effect of incremental income
Value	$0 < APC < 1$	$0 < MPC < 1$

OR

18. b) Keynes' Psychological Law of Consumption

- People increase consumption as income rises, but not as much as the increase in income.
- $MPC < 1$, APC decreases with rising income.
- Explains consumption patterns in the economy.

19. a) Types of Investment with Examples

- Private investment: Factories, machinery, businesses.
- Public investment: Roads, hospitals, education infrastructure.
- Autonomous investment: Independent of income (government investment).
- Induced investment: Depends on income changes (business investment responding to demand).

OR

19. b) MEC and MEI

- Marginal Efficiency of Capital (MEC): Expected rate of return on an additional unit of capital.
- Marginal Efficiency of Investment (MEI): Expected return on total new investment.
- Determines investment decisions in Keynesian framework.

20. a) LM Function and Money Market Equilibrium

- LM curve: Combinations of interest rate (r) and income (Y) where money market is in equilibrium.
- Factors determining equilibrium:
 - Money supply (M)

- Money demand (transaction and speculative motives)
- Price level (P)
- Equation: $M/P = L_1(Y) + L_2(r)$

OR

20. b) Equilibrium in Commodity and Money Markets

- IS curve: Goods market equilibrium.
- LM curve: Money market equilibrium.
- Overall macroeconomic equilibrium occurs at intersection of IS and LM curves, determining income (Y) and interest rate (r).
- Diagram: Downward sloping IS + upward sloping LM → Intersection = equilibrium Y and r