POKHARA UNIVERSITY

Candidates are required to answer in their own words as far as practicable. The figures in the margin indicate full marks.

Section "A"
Very Short Answer Questions

Attempt all the questions. [10×2]

1. Why macroeconomics is called a policy science?
2. What are the leakages and injections in the circular flow of income and expenditure?
3. Why the imports are subtracted from GDP?
4. What is the essence of Say's law of market?
5. Define the consumption equation.
6. What is the autonomous investment?
7. List any four leakages of multiplier.
8. What is meant by inflationary gap?
9. What are the characteristics of recession phase of business cycle?
10. What is expansionary fiscal policy?

Section "B"
Descriptive Answer Questions

Attempt **any six** questions. [6×10]

11. Given the following data: (a) Calculate National Income (NI), Net National Product (NNP), Gross National Product (GNP) and Gross Domestic Product (GDP) by income method (b) Compute Gross Domestic Product by expenditure method.

Heading	Rs. in million
Compensation of employees	4000
Rents	150
Interest	400
Proprietor's income	300
Corporate profit	600
Indirect business tax	700
Capital consumption allowances	800
Payments of factor income to the rest of the world	250
Receipts of factor income from the rest of the world	450
Personal consumption expenditure	4000
Gross private Domestic investment	2000

Government expenditures	1500
Export	100
Import	850

12. Discuss the classical theory of employment and output determination.

13. Using the equation: $C = 200 + 0.8Yd$,
    a) Construct a schedule for consumption and saving when disposable income is Rs.200, Rs. 400, Rs. 600 and Rs. 800.
    b) Graph consumption and saving curves.
    c) Compute APC, APS, MPC and MPS.

14. Consider a three sector Keynesian economy with the following behavioral equations:

$$C = 20 + 0.5Y_d$$
$$T = 20$$
$$I = 500$$
$$G = 250$$

Where symbols have their usual meanings
    a) Find the equilibrium level of income
    b) Calculate the government expenditure multiplier
    c) What would be the equilibrium level of income if marginal propensity to consume (MPC) changes from 0.5 to 0.8? Does it also change the value of government expenditure multiplier?

15. Discuss these conditions with suitable figure to determine the impact on equilibrium interest rate and income level when:
    (a) The government investment in the economy after the earthquake increases.
    (b) Central bank decreases the reserve ratios of commercial banks

16. Suppose model is given as $C=100+0.75(Y-T)$; $I=200-2000i$; $G=100$; $T=80+0.2Y$; $X=50$; $M=20-0.10Y$ and LM function: $Y=200+5000i$
    Find:
    (a) IS Equation   [5]
    (b) Equilibrium Income   [2.5]
    (c) Equilibrium Rate of Interest   [2.5]

17. Define monetary policy. Explain how the monetary instruments can be used to the benefit of a developing country like Nepal.

Case Analysis

18. *Read the case situation given below and answer the questions that follow:*
[20]

ADB Forecasts Modest Economic Growth for Nepal in FY2022

Nepal
GDP growth forecast
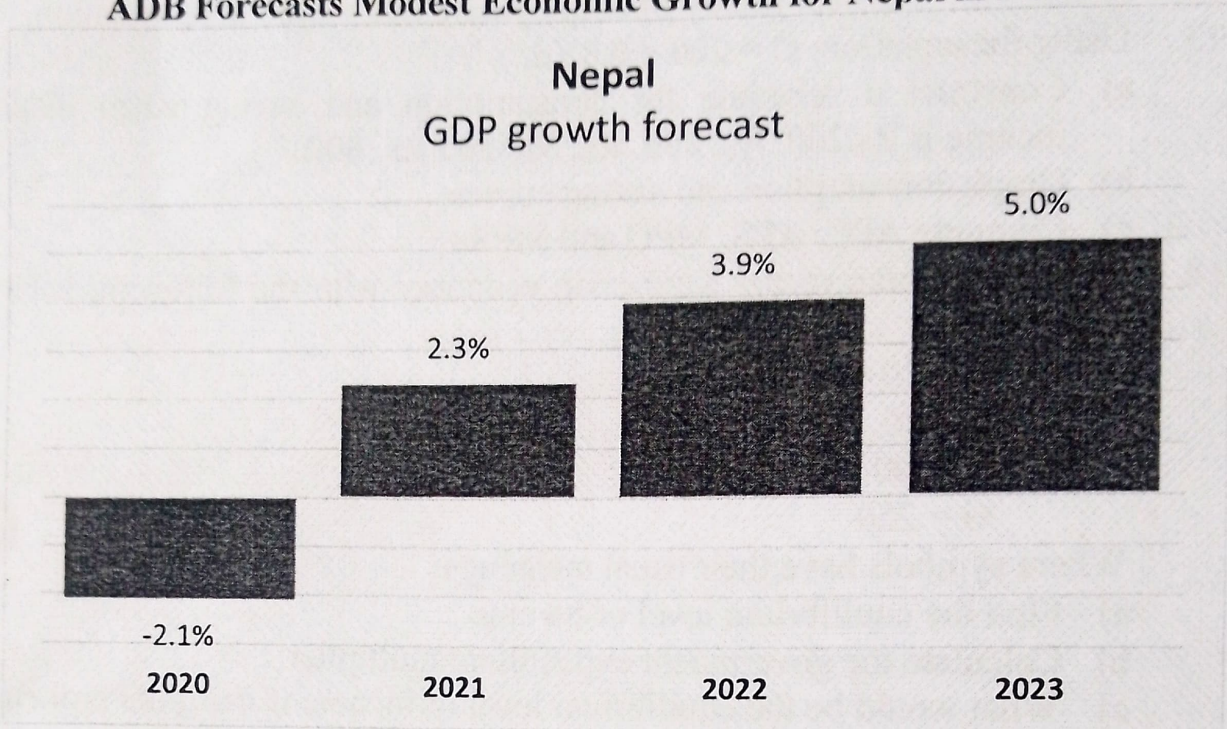
ADB: Asian Development Bank

KATHMANDU, NEPAL (6 April 2022) — Nepal's economy is anticipated to grow by 3.9% (at market prices) in fiscal year (FY) 2022 from an estimated 2.3% growth in FY2021. It is also expected that Nepal's economy may reach to 5.0% by the end of 2023.

Growth is expected to rebound on the back of the ongoing vaccination campaign against the coronavirus disease (COVID-19) pandemic to control infections, fostering a gradual normalization in economic activity and a steady path to higher growth supported by accommodative macroeconomic policies.

Industry growth is expected to edge up to 4.1% in FY2022 on increased consumer and investment demand. Services will likely grow by 5.2% as wholesale and retail trade, transport, and financial services have picked up. International tourism remained depressed in 2021 but will likely gradually recover if the COVID-19 situation remains under control.

Inflation in FY2022 is forecast to average 6.5%, up from 3.6% in FY2021, reflecting the transmission of higher global oil prices and subsequent higher transportation costs. The recent uptick in petroleum and commodity prices, owing to the Russian invasion of Ukraine, has added further inflationary pressure and may exert further pressure on Nepal's balance of payments and foreign exchange reserves. The current account deficit is expected to further widen to 9.7% in FY2022 from 8.0% of gross domestic product (GDP) in

FY2021 due to increased import growth, a low export base, and subdued workers' remittances.

a) Point out the main reason for the current account deficit which will widen to 9.7% in FY 2022?
b) How is Nepal's GDP growth rate expected to increase?
c) Give a precise concept of GDP (at market price) and economic growth.
d) Do you agree that economic growth and inflation will always go in the same direction? Use your concept and opinion in the article.