

Study Programme: Bachelor of Industrial Studies Honours (Agriculture)
Name of the Examination: Final Examination
Course Code and Title : AGM3354 Principles of Economics
Academic Year : 2022/2023
Date: 31.01.2024
Time: 13.30 to 16.30hrs
Duration: 3 hours

SECTION II: Answer any four (04) Questions
You may spend two hours to answer this section.

1. Briefly discuss **five (05)** of the following topics (**5 marks each**)

- i. Taxes and market inefficiency
- ii. Causes of inflation
- iii. Income elasticity of demand
- iv. Utility maximization
- v. Circular flow of income
- vi. Production possibility frontier

2. The demand and supply equations for wheat are:

Demand: $Q_d = 500 - 2P$

Supply: $Q_s = 100 + 5P$

Where Q is quantity and P is price per kg.

- i) Find the equilibrium price and quantity. (6 marks)
- ii) If the government imposes a minimum support price of Rs. 40 per kg, find the quantity demanded and supplied at that price. (6 marks)
- iii) Identify whether there is a shortage or surplus. (3 marks)
- iv) Show the above implication graphically (5)

3. Assess the validity (true or falls) of the given statements below concerning the macroeconomy, with a justification. (4 marks each)

- i) Cutting income taxes will increase aggregate supply.
- ii) Higher interest rates encourage consumer borrowing and spending.
- iii) Appreciation of the domestic currency makes exports more expensive.
- iv) An increase in unemployed discouraged workers will reduce the measured unemployment rate.
- v) Economic growth enables greater production of both consumer and capital goods.

4.

- i) Define the term GDP and explain the expenditure approach to calculating GDP with its components. (4 marks)
- ii) Using the following expenditure data for a hypothetical economy (in billions of dollars), calculate the GDP using the expenditure approach. Show your calculations. (5 marks)

Consumption (C) = \$950 Investment (I) = \$200
 Government Spending (G) = \$500 Exports (X) = \$100
 Imports (M) = \$150
- iii) According to your calculation identify which component of GDP is the largest contributor. (2 marks)
- iv) If net exports (exports - imports) rise by \$50 billion in the upcoming year, with constant consumption and government spending increase of \$80 billion, calculate the new GDP using the expenditure approach. Show step-by-step calculations. (4 marks)
- v) What information does GDP provide about the economy? (2 marks)
- vi) V) "GDP is one of the good measures of economic well-being of a country". Do you agree with the statement? Justify your answer. (3)

5.

- i. Define marginal propensity to consume (MPC) and explain how it relates to the slope of the consumption function. (2 marks)
- ii. If MPC is 0.75 and autonomous consumption is Rs. 500 billion, write the equation for the consumption function. (3 marks)
- iii. Given the following data, calculate the expenditure multiplier:

Autonomous expenditure (AE) = Rs. 600 billion
 Marginal propensity to consume (MPC) = 0.8
 Show your workings. (5 marks)
- iv) If income increases by Rs. 2000 billion, calculate the change in savings using the marginal propensity to save. (5 marks)
- v) Explain how the expenditure multiplier impacts economic growth based on your results. (5 marks)

6.

- i) Explain the concept of consumer equilibrium using indifference curves. What conditions must be satisfied? (5 marks)
- ii) Draw a budget line and indifference map showing a consumer maximizing utility at equilibrium. Label axes. (5 marks)
- iii) Define marginal rate of substitution (MRS) and explain how MRS changes along an indifference curve. (5 marks)
- vi) If income increases, how will the new equilibrium differ from the original one? Explain using a diagram. (5 marks)