**Macro Economics**

**September 2022 Examination**

**Q1. Explain the main proposition of Say’s Law of Market. On what grounds Keynes criticized them?**

**Ans 1.**

**Introduction:**

Say’s law of markets is the core of the classical theory of employment. An early 19th century French Economist, J.B. Say, enunciated the proposition that “supply creates its own demand.” Therefore, there cannot be general overproduction and the problem of unemployment in the economy. In Say’s words, “It is production which creates markets for goods. A product is no sooner created than it, from that instant, affords a market for other products to the full extent of its own value. Nothing is more favourable to the demand of one product, than the supply of

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**Q2. Explain cost push inflation? What factors contribute to cost push inflation?**

**Ans 2.**

**Introduction**

[Inflation](https://www.investopedia.com/terms/i/inflation.asp) is a measure of the rate of price increases in an economy for a basket of selected goods and services. Inflation can erode a consumer's purchasing power if wages haven't increased enough or kept up with rising prices. If a company's production costs rise, the company's executive management might try to pass the additional costs onto consumers by raising the prices for their products. If the company doesn't raise prices, while production costs increase, the company's profits will decrease. Cost-push inflation (also known as wage-push inflation) occurs when overall prices increase (inflation) due to increases in the cost of wages and [raw materials](https://www.investopedia.com/terms/r/rawmaterials.asp). Higher costs of production can decrease the [aggregate supply](https://www.investopedia.com/terms/a/aggregatesupply.asp) (the amount of total

**3.a. From the following data, calculate GDP at Factor Cost and GDP at Market Price**

|  |  |
| --- | --- |
| **Items** | **Rs (in crores)** |
| **Gross investment** | **90** |
| **Net exports** | **10** |
| **Net indirect Taxes** | **5** |
| **Depreciation** | **15** |
| **Net factor income from abroad** | **-5** |
| **Private consumption expenditure** | **350** |
| **Government purchases of goods and Services** | **100** |

**Answer:**

(i) GDP $ \_{MP}=$ (vi) $+$ (i) $+$ (vii) $+$ (ii) $=350+90+100+10=550$
(ii) $GNP\_{MP}=GDP\_{MP}+(v)=550+(-5)=545$
(iii) $NDP\_{MP}=GDP\_{MP}-$ Depreciation $=550-15=535$

**3. b. Public Debt as a Tool of Fiscal Policy**

**Ans 3b.**

**Introduction**

Government expenditures are income-creating while taxes are primarily income-reducing. Management of public debt in most countries has also become an important tool of fiscal policy. It aims at influencing aggregate spending through changes in the holding of liquid asse