**Macro Economics**

**June 2023 Examination**

**1. Explain the impact of a change in autonomous expenditure on the equilibrium level of income using Investment Multiplier** (**10 Marks)**

**Ans:**

**Introduction:**

In economics, the investment multiplier refers to the trade-in equilibrium income that results from an alternate in self-sufficient expenditure. Self-reliant expenditure refers to spending not inspired by modifications in profits, consisting of government or investment spending. The investment multiplier is a critical idea in Keynesian economics, which emphasizes the importance of government intervention to stabilize the financial system. The Keynesian multiplier is an economic theory that states that an increase in private customer expenditure, investment expenditure, or net government spending (gross government spending minus

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**2. Why did the classical economics assume that in a competitive economy, full employment will be automatic? On what grounds Keynes questioned this assumption (10 Marks)**

**Ans:**

**Introduction:**

Classical economists believed that the financial system had total employment. Total employment was the norm to them, and any variation from this changed into considered aberrant. While the call for and delivery of labor is equal, the economic gadget, according to Pigou, has the propensity to automatically create full employment in the labor market. Unemployment is caused by pay structure rigidity and interference with the functioning of the free market system in the form of exchange union law, minimum wage regulation, and so

**3a. From the following data calculate National Income (5 Marks)**

|  |  |
| --- | --- |
| **Items** | **Rs (in crores)** |
| **Private Final Consumption****Expenditure** | **510** |
| **Government Final Consumption  Expenditure** | **75** |
| **Gross Fixed Capital Information** | **130** |
| **Change in Stocks** | **35** |
| **Exports** | **50** |
| **Imports** | **60** |
| **Consumption of fixed capital** | **40** |
| **Net Factor Income from Abroad** | **-5** |
| **Indirect taxes** | **90** |
| **Subsidies** | **10** |

**Ans:**

**Introduction:**

Equilibrium mechanism to ensure the financial system's total employment.

The following assumptions underpin the classical theory of output and employment:

1. Full employment exists in the absence of inflation.

2. There is a free-market capitalist economy without an authority’s intervention.

3. It is a closed financial system without an external change.

**3b. Excessive involvement of government in a sector of market affects the other remaining participants of the sector. Comment (5 Marks)**

**Ans:**

**Introduction**

The government's excessive involvement in a market sector can significantly affect the other closing participants of the arena. This impact can be positive and negative, depending on the nature of the involvement and the precise circumstances