

Ref No.VB/EXAM/REG/ 02/UG/ECO/Sem-II/31014/2023

B.A. (Honours) Examination, 2023

Semester—II (CBCS)

Subject: Economics

Course-CC-3(Introductory Macroeconomics)

Time: 3 hours

Full Marks: 60

Questions are of value as indicated in the margin

Qs. 1. Answer any eight questions from the following:

2X8=16

- Define an intermediate good. Why would inclusion of intermediate goods in measuring GNP involve double counting?
- How do you derive Personal Income (PI) from GDP at market prices?
- What problem do you face in including the Public goods in measurement of GDP? How do you avoid the problem?
- What do you mean by leakages and injections in a Circular flow of income? Give examples.
- If personal income is Rs. 570, personal income taxes is Rs. 90, Consumption is Rs.430, interest payments is Rs. 10 and personal saving is Rs. 40, then find the disposable income.
- What is meant by GDP deflator? What is the use of it?
- For a linear consumption function  $C = a + bY$ ;  $a > 0$ ,  $0 < b < 1$  Comment on the relationship between APC and MPC.
- When does a saving function rotate clockwise or anticlockwise? When does it shift?
- If MPC is greater than or equal to 1, then what problem arises in determination of equilibrium output? Show by using diagrams.
- According to Keynes, why do people hold idle cash balances?
- Consider a project that costs Rs. 100 today (period 0) and yields Rs. 50 in period 1 and Rs. 70 in period 2. If the rate of interest is 10 percent, find the Net Present Value (NPV).
- Derive the relationship between the price of a perpetual bond ( $P_b$ ) and the rate of interest ( $r$ ).
- When do IS and LM curves shift their position?
- What were mercantilists' positions on government's foreign trade policy?
- What are the basic features of classical position against the mercantilists?

Qs. 2. Answer any five questions from the following:

4X5=20

- What is double counting in NI accounting? How do you avoid it? Clarify with an example.
- How is equilibrium output determined in a closed economy without government? Explain with appropriate diagrams.
- In case of a simple Keynesian model without government, if investment consists of both autonomous part and induced part and if MPC is 0.7 and marginal propensity to invest is 0.8, do you think that the model is stable? Justify.
- Show that "Balanced Budget Multiplier" (BBM) is unity.
- What is "Paradox of Thrift". Explain the concept while (i) Investment is autonomous (ii) investment is a positive function of income.
- Explain the four measures of money supply:  $M_1, M_2, M_3, M_4$ .
- Explain the process of credit creation by the commercial banks.
- Explain Keynesian Liquidity trap. Which policy do you suggest would be effective in expanding Output and Employment under this system?
- Write a note on crowding out effect. When will the effect be maximum?
- Write a note on "Loanable Funds" theory of interest

Qs. 3. Answer any two questions from the following:

12X2=24

- If  $C = 20 + 0.9 Y$  and  $I_0 = 70$ , what is the level of unplanned inventory accumulation or decumulation at  $Y = 850$ . Use diagram.
  - For a three sector economy, derive the government expenditure multiplier and show the process of output adjustments in infinite rounds. 6+6
- Derive the equation of the IS curve for an economy without government and interpret the slope of the curve.
  - Derive the equation of the LM curve and interpret the slope of the curve. 6+6
- Interpret the points which are not on IS and LM curves in an IS-LM framework.
  - Show the effects of an expansionary fiscal policy in IS-LM framework and explain the transmission mechanism. 6+6
- Explain the equilibrium in a Classical Labour market.
  - What are the determinants of output and employment in the classical system? What are the factors that do not affect output in such a system? 6+6