M.A. Examination, 2022
Semester-II
Economics
Course: C7
(Macro Economics-II)

Time: 3 Hours **Full marks: 40**

Questions are of value as indicated in the margin.

Answer **Question no 7 and any three** from the following questions

1. Use the Mundell–Fleming model to predict what would happen to aggregate income, the exchange rate, and the trade balance under floating exchange rate in response to each of the following shocks. Be sure to include an appropriate graph in your answer.
   a. A fall in consumer confidence about the future induces consumers to spend less and save more.
   b. The introduction of automatic teller machines (ATM) reduces the demand for money.

5+5

2. Show (both algebraically and graphically) in an open economy with perfect capital mobility that the fiscal policy multiplier is the same as the simple Keynesian multiplier.

10

3. a. Derive the Generalized Efficiency function of a worker by utility maximizing behavior of the worker.
   b. In an Efficient Bargaining model where wage and employment are both determined by co-operative bargaining between the labour union and the employer, show that bargaining power affects the equilibrium wage rate but not the equilibrium employment.

5+5

4. (a) What is the Taylor's Principle? How is this principle related to the 'Monetary Policy' curve?
   (b) Suppose the monetary policy curve is given by $r = 1.5 + 0.75\,\pi$ (π-rate of inflation) and the *IS* curve is given by $Y = 13 - r$.

(i) Find the expression for the aggregate demand curve.

(ii) Calculate aggregate output when the inflation rate is at 2%, 3%, and 4%.

(iii) Plot the aggregate demand curve and identify the three points from (ii).

4+6

5. Starting from a situation of long-run equilibrium, what are the short- and long-run effects of -

   (a) a temporary negative supply shock?

   (b) a permanent negative supply shock?

   Should the government intervene in either of the two cases? Justify your answers.

5+5

6. (a) How does the policy rate hitting a floor of zero lead to an upward-sloping aggregate demand curve?

   (b) Why does the self-correcting mechanism stop working when the policy rate hits the zero lower bound?

5+5

7. Write short notes on any two:

   a. Money wage cut under a situation of depression.

   b. Possibility of policy relevance in the New Classical framework and its political economy implication.

   c. Coordination failure in a market economy and its policy relevance.

   d. Stagflation.

5+5