B.A. (Honours) Examination, 2016
Semester – I
Economics
Course: H-2 (Core)
(Macroeconomics-I)

Time: Three Hours **Full Marks: 40**

Questions are of value as indicated in the margin

Answer *any four* from the following

1. i) From the following data find (a) National Income (b) NNP (c) GNP (d) Personal Income (e) Personal disposable income (f) personal saving

Capital Consumption Allowance	Rs 356
Compensation of Employees	Rs 1866
Business Interest Payments	Rs 264
Indirect Business Taxes	Rs 266
Rental Income of Persons	Rs 34
Corporate Profits	Rs 164
Proprietors Income	Rs 120
Corporate dividends	Rs 66
Social Security Contributions	Rs 253
Personal Taxes	Rs 402
Interest Paid by Consumers	Rs 64
Interest Paid by the Govt.	Rs 105
Govt. and Business Transfers	Rs 374
Personal Consumption Expenditures	Rs 1991

ii) Find the GNP deflator for 2015 from the following Table using 2005 as base

	2005		**2015**	
Good	Units Produced	Price	Units Produced	Price
A	25	1.5	30	1.6
B	50	7.5	60	8
C	40	6	50	7
D	30	5	35	5.5
E	60	2	70	2.5

6+4=10

2. i) Explain carefully why the lump-sum Tax Multiplier in negative and why is it Smaller in absolute value than the govt. Expenditure multiplier.

ii) In a Simple Keynesian Model with no govt. suppose the Consumption Function is given by $C = 100 + \odot .84$ while the investment is given by $\bar{I} = 50$

a) What the equilibrium level of income?

b) What is the level of saving in equilibrium?

c) If for some reason, output was at the level of 800 what would be the level of inventory accumulation?

d) If 'I' were to rise to 100, what would be the effect on equilibrium income and what is the value of investment multiplier? 4+6=10

P.T.O.

3. i) In an economy Consumption Function is given by
$C = 100 + .8Y^d$, $\hat{I} = 50$, $G = 200$, $TR = 62.5$ and $t = .25$
   a) Find the equilibrium level of income and derive the tax rate multiplier
   b) What is the level of Budget Surplus (BS) when $t = .25$
   c) If t increases to 0.3 what will happen to BS
   ii) Show that in an economy with govt. and lump-sum Taxes the Balanced Budget Multiplier is equal to unity.

4. i) Define IS curve & Derive the equation of an IS curve in an economy with government and proportional Taxation
   ii) Determine the Slope of the IS curve and briefly explain the reasons behind its relative steepness or flatness.
   iii) When does the curve shift and when does it rotate its position? 4+4+2=10

5. i) In the framework of IS-LM analysis when will (a) fiscal policy be alone effective in increasing the level of output and (b) monetary policy be alone effective in increasing the level of output.
   ii) Briefly Explain the phenomenon of "Crowding out" with diagrams.
   iii) What is meant by "liquidity trap"? 4+4+2=10

6. a) Suppose that $C = 400 + .75Y^d$, $I = 400 - 20r$, $G = 300$, $T = 400$, $M^d/_p = .25Y - 10r$, $M^S = 1000$, $P = 2$;
   i) Calculate the equilibrium values of Y and r
   ii) Suppose the Govt. decides to remove the budget surplus either by raising G to 400 or cutting T to 300. Would the effect on Y be the same? Explain your answer.
   b) Suppose you Rave an opportunity to purchase an "asset which costs Rs 1000 and which yields Rs 585 at the end of the first year and Rs 585 at the end of the 2nd year (and zero thereafter). If the market rate of interest is 10%, is it your advantage to purchase the asset? Explain your answer. (4+4)+2=10

7. i) Graphically explain the equilibrium in a Keynesian Labour market. How does it differ from the Classical Labour market?
   ii) Briefly discuss the difference between the Fisherian and Cambridge Version of Quality Theory of money. 5+5=10

8. i) How is the rate of interest determined in a Classical Systems?
   ii) How does rate of interest stabilized the economy after a autonomous decline in Investment demand? 5+5=10

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