B.A. (Honours) Examination, 2019

Semester–II (CBCS)

Economics

Course – CC-3

(Introductory Macroeconomics)

Time: Three Hours **Full Marks: 60**

Questions are of value as indicated in the margin.

1. Answer ***any eight*** questions from the following: 2×8=16
   (a) Define stock variable and flow variable. Clarify with appropriate examples.
   (b) How do you derive NNP at factor cost from GDP at market prices?
   (c) Which of the following should be included in GNP?
      (i) A purchase of an automobile by a taxi fleet.
      (ii) A purchase of paint by the homeowner to improve the value of home.
      (iii) A purchase of paint by a paint company engaged by you to paint your home.
      (iv) The rental value of owner occupied home.
   (d) Explain with reasons whether the following expenditures are part of final expenditures. If you are uncertain explain why?
      (i) Expenditure on the repair of a TV set.
      (ii) Expenditure on the purchase of a Smuggled Camera.
      (iii) Salary payment to a pilot of Indian Airlines Corporation.
      (iv) Salary payment to a govt. officer.
   (e) When does the Is Curve shift and when does it rotate?
   (f) When does the LM Curve shift and when does it rotate?
   (g) If C=10+.9Y, I_0=60, what is the level of unplanned inventory accumulation at Y=850?
   (h) Show that the price of a bond $P_b = \frac{A}{r}$ [A is the fixed coupon payment and r is the rate of interest.]
   (i) Why do people hold idle cash balances?
   (j) What is meant by capital gain or loss?
   (k) Give a brief account of the mercantilist's view.
   (l) With an example explain "money as a standard of deferred payment".
   (m) How does demand for labour curve look like? When does it make a shift? Give diagrams.
2. Answer ***any five*** questions: 4×5=20
   (a) Consider the following information

	(in Rs.)
Gross Investment ———————	400
Depreciation	100
Consumption	1100
Foreign remittances	–70
Net Indirect Taxes	38
govt. Purchases	600
Trade deficit	40

Find GDP, GNP, NNP_{MP}, NNP_{FC}

(b) Draw a three Sector Circular flow of income and explain it.

(c) Consider an economy in which $C = 10 + \frac{3}{4}Y, I_0 = 30$ initially $G_0=T_x=0$. Let $Y_f=200$ be the full employment level of income. By how much should G rise to attain Y_f?

(d) Explain the concept of Paradox of thrift with diagrams.

(e) Derive the money multiplier.

(f) Explain Keynesian Liquidity Trap. Which policy do you think would be most effective?

(g) Explain the phenomenon of Crowding out in IS-LM framework.

(h) Write a note on the functions of RBI. What are its assets and liabilities?

3. Answer ***any two*** from the following: 12×2=24

(a) Derive the equation of IS and LM Curves. Determine its slopes and comment on the steepness and flatness of the curves. Interpret the points which are not on the curves. 4+4+4

(b) Derive govt. expenditure multiplier in a Simple Keynesian economy. Show how the economy adjusts in rounds. Suppose $C = 10 + ¾ Y_d$, t=10%, $I_0=G_0=10$.Calculate the impact on equilibrium output if (i) the tax rate is raised to 20% (ii) Govt. expenditure rises by 5. 4+4+4

(c) Suppose the $C = 400 + .75 Y_d$, $I = 400 – 20r$, G=300 T=400, $M^d/p=.25Y–10r$, M=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=300. Is the effect on Y the same? Explain your answer. 4+8

(d) State the basic features of classical proposition. How is output and employment determined in a classical economy? How is interest rate determined in a classical economy? 2+6+4