

B.A. (Honours) Examination, 2018

Semester-I

Economics

Course: H-2 (Core)

(Macroeconomics-I)

(For Back Candidates)

Time: Three Hours

Full Marks: 40

Questions are of value as indicated in the margin

Answer all the questions

1. Answer *any four* from the following: 2×4=8
- (a) What is difference between nominal GDP and real GDP.
 - (b) How do you arrive at NNP at factor cost from GDP at market prices?
 - (c) What do you mean by injections and leakages in a circular flow?
 - (d) For a consumption function $C = a + by$; $a > 0$; $0 < b < 1$. Derive the saving function.
 - (e) What are the sources of wage rigidity in a Keynesian Labor market?
 - (f) What is meant by Keynesian “Money illusion”.
 - (g) Why do people hold idle cash balances?
2. Answer *any four* from the following: 4×4=16
- (a) “Multiplier Cuts both ways” – Explain.
 - (b) Depict a three sector circular flow of income and explain it.
 - (c) Show that in any economy with government and lump sum taxes the balanced budget multiplier is unity.
 - (d) “Tax is a automatic fiscal stabilizer” Explain.
 - (e) If $C = 10 + .9Y$, $I_0 = 60$ what is the level of unplanned inventory accumulation at $Y = 850$?
 - (f) How does the interest rate bring saving and investment into balance in a loanable funds market?
 - (g) How do you derive a labour demand curve in a Keynesian System? Is it different from the Classical System?

P.T.O.

(2)

3. Answer **any two** from the following:

2×8=16

(a) (i) Obtain the equilibrium values of Y and S for $C = 25 + .7Y$, $I = 5 + 0.2Y$. There is no Government Show that the equilibrium 'S' falls if autonomous 'C' falls

(ii) Consider an economy in which $C = 10 + \frac{3}{4}Y$; $I_0 = 30$ and initially $G_0 = T_x = 0$. Let $r = 0$. Let $Y_f = 200$ be the full employment level of income. By how much G must be raised to attain full employment. 4+4=8

(b) (i) Suppose that $C = 60 + .8Y^d$, $I = 150 - 10r$, $G = 250$, $T = 200$

$$P = 1, M = 100$$

$$M^d/p = 40 + 0.1Y - 10r.$$

Obtain the equilibrium values of Y & r .

(ii) Discuss the relative steepness or flatness of IS and LM curves. 4+4=8

(c) (i) Discuss monetary and fiscal policy effects in an IS-LM framework.

(ii) Explain Crowding out and Liquidity Trap in IS-LM framework. 4+4=8

(d) (i) "Supply Creates its own demand" Explain.

(ii) How is full employment maintained in a Classical System? 4+4=8
