

**B.A. (Honours) Examination, 2014**

**Semester – III**

**Economics (Subsidiary)**

**Paper – S-1.4**

**(Macroeconomics-II)**

**Time: 3 Hours**

**Full Marks: 40**

*Questions are of value as indicated in the margin.*

Answer *any four* questions.

1. Explain how classical theory of income and employment show that a free market economy automatically adjusts to full employment level. 10
  2. What is investment multiplier? Calculate the value of the multiplier if marginal propensity to consume (mpc) = 0.8. Explain why an increase in autonomous spending leads to a greater increase in GDP? 3+3+4=10
  3. Write short notes (*any two*): 5+5=10
    - (a) Paradox of thrift
    - (b) Full employment level of output
    - (c) Crowding-out effect
    - (d) GDP deflator
  4. Does increase in money supply always lead to a proportional increase in prices? Give reasons in support of your answer. 10
  5. What is inflation? Elucidate demand pull inflation. What are the policies generally used to control inflation. 2+4+4=10
  6. What are the causes for the possibility of international trade to occur? Discuss the Ricardian theory of 'comparative advantage'. 4+6=10
  7. Argue in favour and against of trade protection. 5+5=10
  8. (a) Why balance of payment is always in balance?  
(b) Explain how devaluation leads to an improvement in balance of trade account. 4+6=10
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