B.A. (Honours) Examination, 2014

Semester – I

Economics

Paper – H-2

(Macroeconomics-I)

Time: 3 Hours **Full Marks: 40**

Questions are of value as indicated in the margin.

Answer ***any four*** questions from the following.

1. (a) Define stock variable and flow variable. Which of the following are stocks and which are flows? Consumption, capital, investment, depreciation. 2+2=4

   (b) Consider the following data for a hypothetical economy:

	Rs.
GDP	7000
Gross investment	800
Net investment	550
Consumption	4500
Government purchase of goods	1100
Budget Surplus	30

   Find: NDP, net exports, government taxes minus transfers, disposable income and personal savings. 1+1+2+1+1=6

2. (a) Consider the following data of a given year of an economy which has two firms only Firm-1 and Firm-2. Firm-1 and Firm-2 Produced Bread and flour worth Rs 400 and Rs 300, respectively. Firm-2 Sold Rs 250 worth of flour to Firm-1 which used $\left(\frac{3}{4}\right)^{th}$ of it to produce bread. Firm-1 sold Rs 350 worth of bread to households. Firm-1 paid Rs 250, Rs 20 and Rs 10 and Firm-2 Paid Rs 200, Rs 30 and Rs 25 respectively as wages and salaries, Rent, Interest. Using these data show GDP equals the sum of value added, aggregate final expenditure and sum of factor incomes.

   (b) Explain how far the concepts of the GNP deflator and the CPI are different in measuring inflation. Do you think one underestimates and the other overestimates true inflation? Explain your answer. 6+4=10

3. (a) In the Simple Keynesian model, an increase of one dollar in autonomous expenditure will cause equilibrium income to increase by a multiple of this one dollar increase. Explain the process by which this happens.

   (b) Suppose we have an economy of the type described by the following functions:

P.T.O.

$C=50+0.8\ Y_D$

$\bar{I}=70$

$\bar{G}=200$

$\overline{TR}=100$

$t=0.20$

(i) Calculate the multiplier in this model.

(ii) Calculate the Budget Surplus.

(iii) Suppose that t increases to 0.25, what is the new equilibrium income? The new multiplier?

(iv) Suppose that investment declined by 40 units to a level of 60. What will be the new level of equilibrium income? 5+1+1+2+1=10

4. (a) Explain in simple Keynesian model, why tax multiplier is negative and why it is smaller in absolute value than the govt. expenditure multiplier.

(b) Consider an open economy without govt. with $C=20+\cdot 8Y$, $I=15$, X=8 and $M=5+\cdot 3Y$. Compute the changes in Y and in the trade surplus if (i) X becomes 10 and (ii) autonomous import rises from 5 to 7. 4+6=10

5. (a) Suppose that C=400 + 0.75 Yd, I = 400 – 20r, T=400, $M^d/_p$ = 0.25 Y–10r, $\bar{M}$=1000, P=2.

(i) Calculate the equilibrium values of Y and r.

(ii) Suppose the government decides to remove the budget surplus, either by raising G to 400 or cutting T to 300. Is the effect on Y the same? Explain your answer.

(b) Explain the shape of the LM curve if money demand is independent of r. In this case fiscal policy is powerless to influence output. Do you agree? 2+4+4=10

6. (a) Derive the Keynesian Aggregate supply curve in a Keynesian System with fixed wage and variable price.

(b) Analyse the equilibrium in a complete Keynesian System using AD-AS Curves. 6+4=10

7. Define the term velocity of money. What are the differences between the Fisherian and Cambridge versions of the quantity theory of money? In what sense is the second one more advanced than the first one? 2+6+2=10

8. Write short notes on (***Any Two***): 5+5=10

(a) Paradox of Thrift.

(b) GDP as a measure of economic welfare.

(c) Monetary Policy-Fiscal Policy mix.

(d) Automatic Full employment.