

B.A. (Honours) Examination, 2022

Semester—II (CBCS)

Subject: Economics

Course-CC-3((Introductory Macroeconomics)

Time: 3 hours

Full Marks: 60

Questions are of value as indicated in the margin

Qs. 1. Answer any eight questions from the following:

2X8=16

- Define an intermediate good. Why would inclusion of intermediate goods in measuring GNP involve double counting? Clarify with an example.
- How do you derive Personal Disposable Income (PDI) from GNP at market prices?
- "Sum of leakages must equal the sum of injections" Justify the statement in a three sector circular flow of income.
- Why is profit regarded as a residual factor income? Can profit be negative or zero?
- Interpret the Keynesian consumption function $C = a + bY^d$. Do you need any restrictions on the parameters 'a' and 'b'?
- Derive a saving function in a two sector economy. When does a saving function rotate clockwise? Show by a diagram.
- If MPC is greater than or equal to 1, then what problem arises in determination of equilibrium output? Show by using diagrams.
- Why are prices assumed to be fixed in short run in a Keynesian framework?
- Define IS curve. Derive the equation of the IS curve in a two sector economy.
- Define LM curve. Derive the equation of the LM curve?
- What were the Keynesian assumptions on interest rates?
- What policies did the Mercantilists propose for a growing economy?
- Briefly state the criticisms on Mercantilists position.
- How is interest rate determined in a loanable funds market?

Qs. 2. Answer any five questions from the following:

4X5=20

- For a hypothetical economy, Gross investment Rs. 400, depreciation Rs. 100, Consumption Rs.1100, Net foreign remittances Rs. -70, net indirect taxes Rs. 38, govt. purchases Rs. 600 and trade deficit Rs 40. Find GDP_{MP} , GNP_{MP} , NNP_{MP} and NNP_{FC} .
- What is "Paradox of Thrift" Explain the concept while (i) Investment is autonomous (ii) investment is a positive function of income.
- How is equilibrium income determined in a closed economy with government?
- "Multiplier cuts both ways" Justify the statement with appropriate diagrams
- Interpret points which are not on the IS curve.
- Derive the Balanced Budget Multiplier (BBM) in an economy with lump sum taxes.
- Why is tax rate multiplier negative in SKM and smaller in absolute value than the govt. expenditure multiplier? Explain.
- Write a note on " Say's Law of Markets"
- Write a note on " Quantity theory of money"

Qs. 3. Answer any two questions from the following:

12X2=24

- Assume that in a hypothetical economy GNP is Rs. 5000, Personal Disposable income(PDI) is Rs. 4100 and the govt. budget deficit is Rs. 200, Consumption Rs. 3800 and the trade deficit Rs. 100. Find the size of Investment (I) and Govt. Spending(G).
 - Is GNP a true index of a Nation's welfare? Discuss.
6+6
- Suppose $C = 10 + .75 Y^d$, $t = 10\%$, $I_0 = G_0 = 10$ Find the value of Y_E , Budget Deficit at initial Y_E and Budget Deficit when t is raised to 20%.
 - "Direct Govt. Expenditure is more expansionary than a policy of Transfer" Justify the statement in the context of SKM.
6+6
- Suppose $C = 400 + .75 Y^d$, $I = 400 - 20r$, $G = 300$, $T = 400$, $M^d/P = .25 - 10r$, $M^s = 1000$ and $P = 2$. Then Derive the equations of IS and LM curves and then find equilibrium (Y, r)
6+6
 - Show the effects of an expansionary fiscal policy in IS-LM framework and explain the transmission mechanism.
- Explain the equilibrium in a Classical Labour market.
 - Why is Classical Aggregate Supply curve vertical?
6+6