

2020

ECONOMICS — HONOURS**Paper : CC-6****(Intermediate Macroeconomics I)****Full Marks : 65***The figures in the margin indicate full marks.**Candidates are required to give their answers in their own words as far as practicable.***Section - A****1. Answer *any ten* questions.**

2×10

(a) Obtain the equilibrium values of Y and r for the following economy.

$$C = 200 + 0.75 Y_d ; I = 200 - 25r$$

 $G = 250 ; T = 200 ;$ The money supply M_s is 1000 and the twice level $P = 2$. The money demand

$$\text{function for the above economy is } \left(\frac{M}{P}\right)^d = Y - 100r .$$

(b) Do you think that the value of Balanced Budget Multiplier may be unity in an $IS - LM$ framework?(c) What is the shape of the IS curve, if investment does not depend on the interest rate?

(d) What is an inflationary gap?

(e) What is stagflation?

(f) Write two key propositions of Monetarism.

(g) Define High Powered Money.

(h) What are two important ratios on which the size of the money multiplier depends?

(i) What is the shape of the Aggregate Demand Curve in the complete Keynesian Model?

(j) What do points off the IS curve imply?(k) Consider a closed economy without government where $C = a + cY$ and $I = f - gr$ $f > 0$, $g > 0$ Find equation of IS curve and show that it is negatively sloped.

(l) What is involuntary unemployment?

(m) What do you understand by real balance effect?

(n) What is repo rate?

(o) Explain the sticky wage model of Aggregate Supply.

Please Turn Over

Section - B

2. Answer **any three** questions.

- (a) Write down Friedman's Restatement of the Quantity Theory of money. 5
- (b) What are four measures of money supply? Present the Balance Sheet of the 'banking sector as a whole'. 2+3
- (c) Why is the short-run aggregate supply curve upward sloping if the nominal wage is sticky? If prices adjust immediately to accommodate any change in nominal wage, what impact will it have on aggregate supply? 5
- (d) Differentiate between Demand Pull and Cost Push inflation. 5
- (e) Explain the Rational Expectations Hypothesis. How does this view of how expectations are formed differ from the concept of adaptive expectations? 5

Section - C

Answer **any three** questions.

- 3. The relative effectiveness of monetary policy and fiscal policy depends on the elasticity of the LM curve.— Discuss. 10
 - 4. What will be the effect of an increase in money supply on endogenous variables in Complete Keynesian Model? 10
 - 5. Suppose government cuts income tax. Show in *IS – LM* model the impact of the tax cut under two assumptions —
 - (a) Government keeps interest rate constant through accommodating monetary policy.
 - (b) Money stock remains unchanged.Explain the difference in results. 4+4+2
 - 6. Using the concepts of currency multiplier, deposit multiplier, reserve multiplier and credit multiplier derive the money multiplier. 10
 - 7. Derive the Short-Run Phillips Curve. Why does it shift upward or downward? Explain why Long-Run Phillips Curve is steeper than the Short-Run Phillips Curve. 10
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Group – A

1. Answer **any ten** questions : 2×10
- (a) Diagrammatically explain the concept of crowding out.
 - (b) If there is no speculative demand for money, using IS-LM curves show which policy will be effective in case of widespread unemployment.
 - (c) Using IS-LM analysis discuss the policy mix required to reduce the interest rate keeping output unchanged.
 - (d) What do the points off IS curve imply?
 - (e) Logically explain why an increase in G raises output by a smaller quantity in IS-LM than in SKM.
 - (f) What would be the slope of the AD curve if investment is completely interest inelastic?
 - (g) What is the main difference in conclusion between the Classical Model and Keynesian Model?
 - (h) Give any two proportions which are “defining characteristics of monetarist position”.
 - (i) Explain the different measures of money supply.
 - (j) Mention and define any two instruments of monetary policy.
 - (k) **What is mark up inflation?**
 - (l) **How does the view of how expectations are formed differ between the theories of Rational Expectations Hypothesis and Adaptive Expectations Hypothesis?**
 - (m) Explain the economic significance of each of the terms in SRPC (Short-run Phillips Curve).
 - (n) Do you think Phillips Curve will hold under Rational Expectations?
 - (o) What are the two requirements of painless disinflation according to advocates of Rational Expectations?

Please Turn Over

Group – B

2. Answer *any three* questions : 5×3
- (a) Suppose that $C = 400 + 0.75Y_d$, $I = 400 - 20r$, $G = 300$, $T = 400$, $M^d/P = 0.25Y - 10r$, $M = 1000$, $P = 2$. Calculate the equilibrium values of Y and r .
- (b) Using IS-LM model, analyse impact on income and rate of interest on the disturbances listed below :
- (i) Society's thriftiness to save more
 - (ii) An autonomous increase in liquidity preference.
- (c) What will happen to AD curve if a cut back in government spending G is accompanied by
- (i) a fall
 - (ii) a rise in money supply
- (d) Derive the money multiplier.
- (e) Describe the nature of market imperfection in sticky wage model. How does this model explain the upward slope of the Aggregate supply curve?

Group – C

Answer *any three* questions.

3. Explain whether monetary policy or fiscal policy is effective when
- (a) Money demand is completely interest inelastic
 - (b) Investment is completely interest inelastic. 5+5
4. Consider introducing speculative demand for money in an otherwise classical model. Give the equational structure of the hybrid model. Do you think addition of speculative demand to the classical model alters the basic conclusions of the model? 5+5
5. Explain any two causes that lead to unemployment equilibrium in the complete Keynesian model. 10
6. Argue why supply of money is not a completely exogenous variable but is partly endogenous. Explain how this will affect the slope of the LM curve. 7+3
7. (a) Explain the balance sheet view of money supply and high powered money.
- (b) Explain the difference between Budget Deficit and Deficit Financing and relate Deficit Financing with money multiplier. 4+6
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