

(This question paper contains 2 printed pages)

Roll No.....

Sr. No. of Question Paper : 2524
Unique Paper Code : 248301
Name of the Paper : Macroeconomics - I
Name of the Course : B.A. (Hons) Business Economics, 2013
Semester : III
Duration : 3 hours
Maximum Marks : 75

Write your Roll No. on the top immediately on receipt of this question paper.

Attempt any five questions.

All questions carry equal marks.

1. a) GDP only counts the production of goods in their final form during a given period of time. What are the various components of the final demand for goods? (5)
b) Showing the structure of the demand and the supply of central bank money explain how the interest rate is determined. (10)
2. a) Using the IS – LM graph show the effects on output and the interest rate of an increase in taxes. Can you tell what happens to investment? Why? (10)
b) In a two sector model, suppose $C = 60 + 0.80Y$, $I = 116 - 2i$, $L = 0.20Y - 5i$ and $M = 120$. Find the equilibrium rate of interest and equilibrium level of income at which there is simultaneous equilibrium in the goods and financial markets. Show your results graphically by plotting IS – LM curves. (5)
3. a) Using the model of Aggregate supply(AS) and Aggregate demand(AD), show the equilibrium in the level of output and price level both in the short run and the medium run. (10)
b) Elaborate on wage determining factors. (5)
4. a) What do Okun's law, Phillips curve, and Aggregate demand relation imply for the effects of nominal money growth on output, unemployment and inflation both in the short run and medium run? (10)

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- b) "Wage indexation increases the effect of unemployment on inflation." Explain. (5)
5. a) "According to real business cycle theory short run fluctuations in output and employment occur because wages and prices are slow to adjust to changing economic conditions" Explain. (10)
- b) "When conventional system breaks down, inflation tax revenue may be the government's last resort to keep paying its bills." Explain. (5)
6. Write short notes on any *three* of the following. (3*5) = 15
- a) Policy mix to combat recession
 - b) Sacrifice ratio
 - c) Hyper inflation
 - d) Difference between the GDP Deflator and CPI.