[This question paper contains 4 printed pages.]

Sr. No. of Question Paper : 6080 **Your Roll No.....**

Unique Paper Code : 12481301

Name of the Paper : Macroeconomics & Application – I

Name of the Course : **B.A. (Hons) Business Economics, 2016 (CBCS)**

Semester : III

Duration : 3 Hours

Maximum Marks : 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt **all** questions.
3. **All** questions carry equal marks.
4. Illustrate your answer with suitable diagrams, whenever required.
5. The number of marks carried by each question is indicated at the end of the question.
6. **Both** parts of each question must be done together.

1. State whether the following statements are True or False. Give reasons in support of your argument& explain briefly : (3×5=15)

   (i) An increase in the propensity to save leads to a decrease in output, in short run IS-LM model. True/False.

   (ii) GDP deflator is more comprehensive and broad indicator of cost of living then CPI. True/False.

   (iii) An increase in output at a constant interest rate can only be achieved using a monetary-fiscal policy mix. True/False.

P.T.O.

(iv) In the medium run, aggregate supply and aggregate demand relations implies that prices and output always return to the same value. True/False.

(v) The debt-income ratio rises if the growth rate of debt – determined by interest payments and primary deficit exceeds the growth rate of nominal income. True/ False.

2. (a) Assume the following model of the economy for a closed economy IS-LM model :

$C = 0.6(Y^d)$

$T = 2{,}000,\ I = 900 - 30r$

$G = 2{,}000$

$M^d = 0.4Y - 40r$

$M^S = 3000$

$P = 2$

Where C = Consumption, Y^d = Disposable Income T = Tax Revenue I = Investment, r = rate of interest, G = Government Expenditure, M^d = Demand for money, M^s = Money Supply P = Price level

(i) Derive the formula for the IS curve, showing Y as a function of r alone.

(ii) Derive the formula for the LM curve, showing Y as a function of r alone.

(iii) What are the short-run equilibrium values of Y, r, Y^d, C, I ?

(iv) Assume that G increases by 200. By how much will Y increase in short run equilibrium ?

(v) Assume that G is back at its original level of 2,000, but M^S (nominal money supply) increases by 200. By how much will Y increase in short-run equilibrium ? (1+1+3+3+2=10)

(b) What is the significance of CPI as a cost of living index for an economy ? Does it overestimate inflation ? (5)

OR

A bond will pay Rs 1000 in one year. What is the interest rate on the bond if the price today is

(i) Rs. 750

(ii) Rs. 940 (5)

3. (a) How would the following changes affect the natural rate of unemployment (Attempt any **two**) :

(i) Elimination of Unions

(ii) Increase in Unemployment benefits

(iii) Elimination of reservation wages

(iv) Increase in price of petroleum products (2½×2=5)

(b) Explain the effects of monetary expansion &government budget deficit reduction in medium run using the AS-AD relation. (10)

4. (a) Explain what is meant by the Lucas critique and discuss how it can be used to explain the effects of a monetary policy action that attempts to reduce unemployment below the natural rate of unemployment. (7)

(b) Write short notes on any **two** of the following :– (4+4=8)

(i) Wage indexation

(ii) NAIRU

(iii) Disinflation

P.T.O.

OR

Explain how the original Phillips curve differs from the expectations-augmented Phillips curve (or the modified, or accelerationist Phillips curve). (8)

5. (a) How does real business cycle theory explain fluctuations in employment ? Discuss the four central disagreements which arise in the debate over real business cycle. (3+7=10)

(b) Write short notes on any **ONE** : (5)

(i) Inflation tax

(ii) Money multiplier