# 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

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

   (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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