

Q.P Code: 22084

[Time: 3 Hours]

[Total Marks: 100]

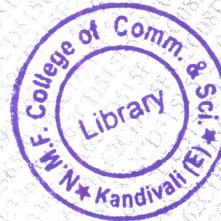
NB:

1. All questions are compulsory.
2. All questions carry equal marks.
3. Use of simple calculator is allowed.
4. Draw neat diagrams wherever necessary.

**Q1. a) Explain the following terms (Any 5)**

(10)

- i. Gross National product.
- ii. Peak of a business cycle.
- iii. Aggregate supply price
- iv. Marginal efficiency of capital.
- v. LM curve.
- vi. Laffer curve.
- vii. Narrow money
- viii. Demand pull inflation.

**b) Choose the correct option and rewrite the statements.**

(10)

- i. The following is not the subject matter of macro economics
 

a) National income accounting	b) Law of demand and supply
c) Business cycle	d) General price level
- ii. Which of the following is the sum of all income actually received by the people in the country ?
 

a) Personal income	b) National income
c) Gross Domestic Product	d) Gross National Income
- iii. According to Keynes', in order to increase employment we have to increase aggregate
 

a) supply	b) output
c) demand	d) investment
- iv. Investment will be in equilibrium when \_\_\_\_\_ become equal to the given current rate of interest.
 

a) Marginal Efficiency of Capital	b) Profits
c) Savings	d) None of the above
- v. Investment multiplier is \_\_\_\_\_ MPS
 

a) directly related to	b) a reciprocal of
c) not related to	d) equal to
- vi. Which of the following will cause the LM curve to shift to the right ?
 

a) Increase in money supply	b) Decrease in money supply
c) An increase in the rate of interest	d) Decrease in government expenditure.
- vii. Supply side economics aims at increasing income by
 

a) reducing taxes	b) reducing prices
c) increasing government's expenditure	d) decreasing government expenditure
- viii. The value of money multiplier is determined by
 

a) currency deposit ratio and time deposit	b) Currency deposit ratio
c) Currency deposit ratio and reserve ratio	d) None of the above
- ix. According to the Fisher equation of exchange, an increase in the money supply is most likely to lead to inflation if,
 

a) The velocity of circulation decreases	b) The number of transactions decreases
c) There is deflation	d) The velocity of circulation and the number of transactions is constant



- x. Government's budgetary policy during inflation should aim at
- |                           |                           |
|---------------------------|---------------------------|
| a) Increasing expenditure | b) Decreasing expenditure |
| c) Increase in investment | d) Lowering taxes         |

**Q2. Answer any two of the following.** (20)

- Discuss the circular flow of national income in a three and a four sector economy.
- How is the concept of Green National income different from that of the conventional measure of national income? Discuss the relationship between national income and economic welfare.
- State and explain Say's law of market. On what grounds did Keynes criticize it?

**Q3. Answer any two of the following** (20)

- What is effective demand? Discuss Keynes' equilibrium level of output and employment.
- Suppose the consumption function (INR billion) for a closed economy is  $C = 20 + 0.8Y_d$ . Suppose that disposable income increases from INR 50 billion to INR 150 billion. By how much would the consumption and savings rise? What has happened to the savings rate?
  - Distinguish between Gross and Net Investment & Autonomous and Induced Investment.
- Explain with an example and illustrative diagrams the working of investment multiplier.

**Q4. Answer any two of the following** (20)

- Discuss IS curve and bring out its properties.
- Discuss the nature of the short run and long-run Phillip's Curve.
- What is stagflation? Discuss the causes and consequences of stagflation.

**Q5. Answer any two of the following** (20)

- What is money supply? Discuss the determinants of money supply.
- Examine the effects of inflation on economic activities and different sections of people.
- How is interest rate determined? Discuss the drawbacks of liquidity preference theory of interest.

