RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College affiliated to University of Calcutta)

B.A./B.Sc. FIRST SEMESTER EXAMINATION, DECEMBER 2019

FIRST YEAR [BATCH 2019-22]

ECONOMICS (Honours)

Paper : II (CC2)

Date : 13/12/2019

Time : 11 am – 1 pm

Full Marks : 50

1. Answer **any three** questions of the following: [3×4]

   a) Differentiate between —

      i) GNP at market price and GNP at factor cost

      ii) GNP and NNP (2+2)

   b) Consider the two situations:

      i) I = 500 + 0.5Y

      ii) I = 1000

      How does the difference in investment functions affect the value of equilibrium income and the value of multiplier in the Simple Keynesian cross model? (2+2)

   c) Discuss, in brief, the role of information imperfection of producers in generating a positively sloped AS curve. (4)

   d) Mention the public policies related to frictional unemployment. (4)

   e) Discuss the concept of NAIRU. (4)

   f) Distinguish between flexible and sticky price. (4)

2. Answer **any one** question of the following: [1×8]

   a) Consider the following data:

Item	Expenditure (Rs. crore)
Government purchase of goods and services	1721.6
Exports	1096.3
Receipts of factor income from rest of the world	382.7
Net fixed investment	688.2
Depreciation	990.8
Corporate Income Taxes	265.2
Consumption Expenditure	6739.4
Indirect Business Tax	664.6
Imports	1475.8
Payments of factor income to rest of the world	343.7
Inventory Change	56.5
Social Security Contributions	702.7
Retained Earnings	130.3
Government Transfer	1366.3
Personal Interest Payment	286.2
Personal Taxes	1235.7

   Find out : (4×2)

   i) Gross Domestic Product   ii) Gross National Product

   iii) National Income   iv) Personal Income

b) What is the Sticky Price Model? With the help of this model, show how sticky prices can help in explaining the upward slope of the Aggregate Supply curve. (2+6)

3. Answer **any two** questions of the following: [2×15]

a) What do you mean by 'crowding out effect'? What will be the extent of crowding out if we introduce: [3+(3+3+3+3)]

i) Fiscal policy when the interest elasticity of investment is infinite.

ii) Fiscal policy when demand for money is completely independent of the rate of interest.

iii) Monetary policy when interest elasticity of money demand is infinite.

iv) Monetary policy when investment is independent of the change in rate of interest.

b) i) What is monetary-fiscal policy mix? How are these policies related to economic growth?

ii) If C = 100 + 0.8Y, I = 150 – 600r, M^s = Rs. 200, K = 0.2Y, and L = 50 – 400r,

Where C, I, r, & Y have their usual meanings : M^s = Money Supply, K= Transaction Demand for Money, L = Speculative Demand for Money. Now find the IS & LM functions & determine equilibrium income and rate of interest. [(3+6)+(3+3)]

c) How can we reach the relationship between real wage and unemployment using the wage-setting and price-setting relationship? From the relationship, how can you show that an increase in unemployment benefit raises the equilibrium rate of unemployment? How will the equilibrium rate of unemployment be affected if the market experiences an entry of more firms? How can these relationships be combined together to derive the AS curve? (4+3+4+4)

d) i) Show with the help of AD-AS curve, how we can differentiate between the short run and the medium run.

ii) Show that the Phillips curve is an alternative representation of the AS curve. (8+7)

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