

# RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College affiliated to University of Calcutta)

B.A./B.Sc. THIRD SEMESTER EXAMINATION, MARCH 2021

SECOND YEAR [BATCH 2019-22]

ECONOMICS (HONOURS)

Paper : VI [CC6]

Date : 16/03/2021

Time : 11 am – 1 pm

Full Marks : 50

Answer **any three** questions from question nos. 1 to 5: [3×4]

1. Suppose an economy is characterized by the following production function :  $Y = AK^4L^6$ . What can you say about the wage share and rental share of the economy? (4)
2. What will happen to the long run growth rate of the economy of the economy according to the Solow model had there been an one time increase in the growth rate of an economy ? (4)
3. What do you mean by Seigniorage? “ Higher seigniorage may ultimately appear counterproductive” – examine the validity of the statement. (2+2)
4. What do you mean by Cyclical Unemployment? How does it impact the Phillips curve? (2+2)
5. In the context of intertemporal choice what will happen to current and future consumptions had there been a temporary decline in the current income of the individual? (4)

Answer **any one** question from question no. 6 & 7: [1×8]

6. Consider an economy characterized by the following production function :  $Y = AK^4L^6$ . Find out the path of capital accumulation and steady state of capital of the economy when the rate of savings, population growth and technological progress are 40%, 2%, 1% respectively. Also assume that capital depreciates at the rate 20%. (3+5)
7. In the context of the Neo-classical model of investment explain the impact of each of the following on the rental price of capital, the cost of capital and investment:
  - i) Anti-inflationary monetary policy raises the real interest rate
  - ii) An earthquake destroys part of the capital stock
  - iii) An immigration of foreign workers increases the size of the labour force (2.5+2.5+3)

Answer **any two** questions from question nos. 8 to 10: [2×15]

8.
  - i) Distinguish between transaction and portfolio theories of money demand.
  - ii) How does the transaction theory explains the optimal money demand of individuals?
  - iii) What, according to the portfolio theories, the demand for money depends? (4+7+4)
9.
  - i) Distinguish between rational and adaptive expectations.
  - ii) Using adaptive expectations derive the short run Phillips curve. What causes shift in the curve.
  - iii) What is Sacrifice ratio? What will be its value in the short and long run?

- iv) Will the value of sacrifice ratio be the same if instead of adaptive expectations people form expectations rationally? [4+(3+2)+3+3]
- 10 i) Explain the basic difference between Keynesian consumption function and the consumption function predicted by Life Cycle Hypothesis.
- ii) Describe the Life Cycle Hypothesis in detail.
- iii) Suppose at a particular year government announces that it will give its citizens a dole of Rs. 5000 each. What will be its impact on current consumption of the economy had the citizens follow (a) Keynesian conjecture (b) life-cycle hypothesis conjecture? [4+6+(2.5+2.5)]

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