

RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College affiliated to University of Calcutta)

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

FIRST YEAR [BATCH 2020-23]

ECONOMICS [HONOURS]

PAPER : II (CC2)

Date : 26/03/2021

Time : 11 am – 1 pm

Full Marks : 50

Answer **any three** questions of the following:

[3×4]

1. Consider an economy where an iron producer produces iron worth rupees 80 crore. The producer sells Rs. 50 crore of iron to a car producer and the remaining to a retail outlet. The car producer uses the iron to produce car. She then sells Rs. 40 crore worth of car in the domestic market and exports cars worth Rs. 80 crore. The retail outlet sells the iron at Rs. 50 crore to a producer who uses it for capital formation. Find the GNP of the economy. (4)
2. Consider a simple Keynesian economy where Consumption, Investment and Government spending are positively related to income. Describe the mathematical formulation of the economy and find the level of equilibrium income. (4)
3. What do you mean by efficiency wage? Why such efficiency wages can generate involuntary unemployment? (2+2)
4. Explain how stricter enforcement of antitrust legislation can lead to the reduction of involuntary unemployment. (4)

Answer **any one** question of the following:

[1×8]

5. Consider an economy characterized by the following equations:

$$C=4000-4000r+.20Y$$

$$I=2400-4000r$$

$$G=2000$$

- a) Find out the equation that equates desired National Savings to Investment.
- b) What value of rate of interest clears the goods market when the income level is 10,000. What will happen if the income level rise to 10,200
- c) Find the value of equilibrium income and rate of interest when the money market equilibrium is characterized by the following equation:

$$(M/P) = 3000 + .1Y - 10000r$$

$$\text{When } M = 6000, P = 2$$

[1+(2+2)+3]

6. How can you derive the aggregate demand curve from the product and money market equilibrium conditions? Will the shape of aggregate demand curve remain the same had

- a) investment been perfectly interest elastic
- b) investment been perfectly interest inelastic? [3+(2.5+2.5)]

Answer **any two** questions of the following:

[2×15]

7. i) How are the following entries recorded in National Income Accounting:

- a) Payment of pocket money to a student by his father

- b) capital gains
 - c) inventories?
- ii) Why is it important to distinguish between real and nominal GDP?
- iii) Suppose there is an economy whose GDP exceeds GNP. What would you infer about the nature of the economy? [(3+3+3)+3+3]
8. i) Consider an economy where interest elasticity of demand for money is infinite. In this economy whether expansionary fiscal policy or monetary policy will be more effective? Will your conclusion be the same had the interest elasticity of investment demand be infinite.
- ii) Find the value of Balanced Budget Multiplier in the IS-LM framework. Will there be any change in the value of Balanced Budget Multiplier when both consumption and investment is negatively related to interest rate? [(4+4)+4+3]
9. i) How does the sticky price model explain the positive slope of the Aggregate Supply curve? What will happen to the slope of the aggregate supply curve if the proportion of producers who can change the price increases? Will the slope of the Aggregate Supply curve remain the same in the long run? If not why?
- ii) Consider the case of an expansion in government spending. Will the impact of such policy on income be the same in case of IS-LM framework and AD-AS framework? Explain. [(5+3+3)+4]

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