

RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College affiliated to University of Calcutta)

B.A./B.Sc. FOURTH SEMESTER EXAMINATION, AUGUST 2021

SECOND YEAR [BATCH 2019-22]

ECONOMICS (HONOURS)

Paper : IX [CC9]

Date : 09/08/2021

Time : 11.00 am – 1.00 pm

Full Marks : 50

Group A

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

[3×5]

1. Suppose the demand for labour is given by the following function: $D_L = 10 - 3w$. The supply of labour is represented by $S_L = -2 + 3w$ where w represents the real wage. Find out the equilibrium real wage and employment level following to the classical assumptions about labour market. Now suppose the formation of labour unions transforms the labour supply function as:

$$S_L = -2 + 3w \text{ for } w \geq 3$$

$$w = 3 \text{ for } L < 4$$

Find the resultant change in equilibrium.

(5)

2. Describe the Keynes effect. Will the effect operate had investment becomes completely insensitive to change in rate of interest? (3+2)
3. Consider an economy where GDP moves according to the equation $Y_t = g_t + bY_{t-1} + z_t$; where g_t represents the trended growth of the economy and z_t , a random error component. Suppose at t , z_t attains a value 1, returns to zero in the next period and stays there forever. Describe the nature of the time path assuming (i) $0 < b < 1$ and (ii) $b = 1$. (2.5+2.5)
4. How does the efficiency wage theory determine the equilibrium level of wage and employment? (5)
5. Show, in an imperfectly competitive market, presence of menu cost leads to rigidity of prices. (5)
6. Describe the differences between the Keynesian monetary sector and the classical monetary sector. (5)

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

[1×10]

7. Explain the complete Keynesian model with full employment equilibrium. Now suppose there is a decrease in private investment. What will happen to the equilibrium (i) in the absence of Pigou effect and (ii) in the presence of Pigou effect? (4+3+3)
8. In Real Business Cycle Analysis describe the impacts of (i) an adverse technology shock and (ii) an increase in Government spending. (5+5)

Group B

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

[3×5]

9. Write a short note on Bretton Woods System.
10. What is Asian Crisis during 1908s and in the first half of 1990s?
11. What are the advantages of fixed exchange rate system?

12. What is Purchasing Power Parity (PPP) principle? Explain with an example. What will be the value of real exchange rate in case of PPP?
13. What is Marshall – Lerner condition? Explain the J – curve phenomenon in the context of devaluation and Marshall – Lerner condition?
14. Under the fixed exchange rate system what will be effect of an expansionary monetary policy with perfect capital mobility?

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

[1×10]

15. i) What is sterilization of money supply? (2)
- ii) Explain the SWAN diagram. Derive the internal equilibrium and the external equilibrium schedule separately. (4)
- iii) Explain the policy choices available to an economy and the dynamics of the adjustment process in a situation when a country faces with huge trade deficit combined with huge unemployment. (4)
16. i) Derive the small country open economy multiplier and the large country open economy multiplier of autonomous changes in expenditure. (4)
- ii) Compare the small and large country open economy multiplier of autonomous expenditure change with the closed economy case. (2)
- iii) Calculate the extent of trade deficit after an increase in the autonomous import in small country case and compare it with the large country case as well and show that the effect of change in autonomous domestic expenditure and autonomous export on domestic output are same but they have opposite effect on the trade balance condition. (assume initially trade balance condition was satisfied). (4)

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