RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College affiliated to University of Calcutta)

B.A./B.Sc. THIRD SEMESTER EXAMINATION, MARCH 2022

SECOND YEAR [BATCH 2020-23]

Date : 05/03/2022

Time : 11 am – 1 pm

ECONOMICS (HONOURS)

PAPER : VI [CC6]

Full Marks : 50

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

1. In an economy in the long run an increase in government spending leads to full crowding out- Explain.

2. Why is the assumption of Constant Returns to Scale essential for the analysis of long run equilibrium in the economy?

3. Discuss the importance of Inada conditions in finding the steady state of growth of the economy.

4. Seigniorage is effective but only up to a certain level- Explain

5. Distinguish between Adaptive and Rational expectations.

6. Define Tobin's q. How does it act as an indicator of investment incentive?

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

7. Consider an economy where the money demand function is inversely related to relative price in the following way: $\frac{M_t}{P_t} = \left(\frac{P_t}{P_{t+1}}\right)^2$. People expect that in the next period, with the easing of COVID situation, government will reduce money supply by half. Assume that money supply beyond one period has no impact on the price level. If the current money supply is 100 units, what will be the current price level? (8)

8. Consider the utility function of a representative consumer as $U = C_1^{.25} C_2^{.75}$, where C_1 and C_2 represents consumption in periods 1 and 2 respectively. The consumer earns Rs. 100 in the first period and Rs. 200 in the second period. The real rate of interest prevailing in the economy is 50%. Find the equilibrium consumption of the two periods. Also find the impact of increase in income of Rs. 100 in (i) period 1 and (ii) period 2. (5+3)

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

9. In the Solovian growth model with Harrod Neutral Technological Progress show how the increase in standard of living increases over time. Explain, in this context, why the growth of per capita capital will equal to the growth rate of technology while the growth of output will be equal to the sum of growth rate of technology and the growth rate of labour force. (9+6)

10. What is the difference between 100% reserve banking and fractional reserve banking? How does the fractional reserve banking impact the money supply of the economy? Discuss, in this context, the impact of increase in High Powered Money on money supply. (3+6+6)

11. What are demand pull and cost push inflation? Discuss their impacts on the Phillips curve? Why does people's inflationary expectation influence current inflation rate? [(8+3)+4]

12. How does Permanent Income Hypothesis explain the discrepancy between the short run and long run consumption function? Explain, in this context, the role of fiscal and monetary policies on current consumption levels. (12+3)

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