

RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College affiliated to University of Calcutta)

B.A./B.Sc. FOURTH SEMESTER EXAMINATION, MAY 2025

SECOND YEAR [BATCH 2023-27]

ECONOMICS

Paper : 4ECOMJC1

Date : 03/05/2025

Time : 11 am – 1 pm

Full Marks : 50

Answer **any three** questions:

[3×4]

1. Consider a simple Keynesian model where consumption, investment and government spending are positively related to income level. The marginal propensity to consume, invest and government spending are .25, .2 and .35 respectively. Find the value of autonomous expenditure multiplier.
2. How did Keynes justify his claim that change in demand causes changes in output without any change in price.
3. Consider an economy where people's demand for money is unresponsive to changes in interest rate. What will be the shape of the LM Curves?
4. Show that the autonomous expenditure multiplier of a large open economy is greater than that of a small economy.
5. What do you mean by covered interest parity condition? Explain.
6. Distinguish between foreign currency futures and foreign currency options.

Answer **any one** question:

[1×8]

7. In a particular economy the real money demand function is

$$\frac{M^d}{P} = 3000 + 0.1Y - 10000(r + \pi^e)$$

Assume $M = 6000$, $P = 2$ and $\pi^e = 0.02$

- a) What is the real interest rate 'r' that clears the asset market when $Y = 8000$? When $Y = 9000$?
 - b) Repeat part a) for $M = 6600$. What do you think will be its impact on the LM curve?
 - c) Use $M = 6000$ and repeat part a) for $\pi = 0.03$. (3+3+2)
8. Consider the following data of the economy:

$$C = 295 + 0.8(Y - T)$$

$$I = 275 - 50r$$

$$T = 25$$

$$G = 50$$

$$\left(\frac{M}{P}\right)^d = .65Y - 25r$$

$$M^s = 330$$

$$Y = 40N^{-5}$$

$$W = 20$$

Derive the equation of AD and AS curves and find out the equilibrium values of output, prices and interest rate.

(2+2+2+1+1)

Answer **any two** questions:

[2×15]

9. a) Show with the help of IS-LM model that creation of budget deficit by itself may not produce the desired expansionary effect on income.
- b) Suppose the investment function is $I = I_0 + aY - br$ where 'a' is constant between zero and one, 'b' is a constant and greater than zero. Use IS-LM model to consider the short run impact of an increase in government purchases on Y and r. (11+4)
10. Consider the complete Keynesian model. Suppose the demand for money is completely interest inelastic. Will the effect of an increase in money supply on income depend on the price elasticity of aggregate supply? Is fiscal policy effective in this case? Explain your answer. (10+5)
11. Using the interest parity condition, describe the impact of
- i) Increase in domestic interest rate on the domestic exchange rate
- ii) Increase in domestic money supply on domestic interest rate and domestic exchange rate (7+8)
12. How can the combination of exchange rate and government expenditure be used to maintain (i) internal balance and (ii) external balance of an economy? Explain the concept of Assignment problem in this regard. (5+5+5)

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