

RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College under University of Calcutta)

B.A./B.SC. FIFTH SEMESTER EXAMINATION, DECEMBER 2012

THIRD YEAR

Economics (Honours)

Date : 20/12/2012

Time : 11 am – 3 pm

Paper : VI

Full Marks : 100

(Use separate answer book for each group)

Group – A

Unit I

1. Answer **any one** question of the following: [1×5]
 - a) Explain how the following transaction generates two entries – a credit and a debit : A US owned factory in Britain uses local earnings to buy additional machinery. (5)
 - b) Draw a Swan Diagram and explain the significance of the curves, indicating different zones with different possible combination of internal and external imbalance. (1+4)
2. Answer **any one** question of the following: [1×8]
 - a) Distinguish between Expenditure Switching and Expenditure Reducing policies. What are the different types of Expenditure Switching policies? (4+4)
 - b) In a two country (home and foreign) Keynesian model with usual notations and assumption for large country if home country makes a transfer ΔT to the foreign country, show that $\frac{\Delta TB}{\Delta T} = \frac{ms^* + m^*s}{s^*s + ms^* + m^*s}$ where TB = trade balance of the home country; m and m* are the marginal propensity to import of home country and foreign country respectively, s and s* are the marginal propensity to save of home country and foreign country respectively. Does the current account of the transferor improve or worsen? (6+2)
3. Answer **any one** question of the following: [1×12]
 - a) What is Devaluation? Analyze the Marshall Lerner condition and explain why it is more likely to hold in the longrun. (2+10)
 - b) What is the asset-approach of exchange rate determination? Discuss, in this connection regarding interest parity condition. What are the effects of changing interest rate and changing expectation on current exchange rate. (6+2+2+2)
 - c) What is purchasing power parity? Show the small country version of monetarist model of balance of payment with fixed exchange rate through assumption of purchasing power parity. Bring out its basic differences with the Keynesian model with respect to features as well as outcomes following devaluation. (2+4+2+4)

Unit II

4. Answer **any one** question of the following: [1×5]
 - a) Discuss the reasons underlying government intervention in primary education. (5)
 - b) What is value-added tax? In what sense is it superior to other indirect taxes? (2+3)
5. Answer **any one** question of the following: [1×8]
 - a) Describe, in brief, the process of allocating tax to individuals for the provision of a public good following Benefit-Principle. What is the major feature of such pricing rule? (8)
 - b) What is excess burden of a tax? How do you measure it? Why does the excess burden depend on price elasticity of demand and supply. (2+2+4)

6. Answer **any one** question of the following: [1×12]
- Describe Richardian Equivalence. Explain the conditions in which it is not likely to hold. (6+6)
 - What is 'Ability to Pay' principle of taxation. Distinguish between horizontal and vertical equity under this principle. What are the different concepts of 'equal sacrifice' to formulate rules for vertical equality. (2+4+6)
 - 'An equal-yield proportional tax leads to stronger work effort and a higher level of welfare than a progressive tax does' –Do you agree with the statement? (12)

Group-B

7. Answer **any two** questions: (5x2)
- What is "screening" in the context of sharecropping?
 - Explain in brief the major demographic features of poverty.
 - What are the two broad categories of hired labour? Mention the key differences between them. (1+4)
 - Explain the implications of 'positive assortive matching' and 'peer monitoring' in case of Grameen Bank type of Microfinance.
8. Answer **any two** questions: (8x2)
- Discuss the functional impact of poverty on the rural poor from the view point of credit and insurance market. (4+4)
 - Discuss some features of labour markets that require substantial extensions to, or change in, the standard supply-demand model for the study of labour market equilibrium.
 - Show that collateral that is of high value to both lender and borrower may result in credit transactions with excessive rates of default.
 - Distinguish between formal and informal institutions. Give one example to explain how collision between formal and informal incentives results in contracting an economy instead of helping it growing. Provide another example to show that close coupling of these two rules can expedite the process of development of an economy. (3+3+2)
9. Answer **any two** questions: (12x2)
- What is credit rationing? Why does money lender's preferred contract involve credit rationing?
 - Show that a risk-averse tenant should prefer sharecropping contract over the fixed-rent contract.
 - What is capacity curve? Develop a model to show the relationship among poverty, nutrition and labour market. Show in this connection how labour market equilibrium in this model can generate involuntary unemployment.
 - What are the main reasons behind government failure? Explain in this context, the emergence of rent seeking activities. Point out when such activities are classified as forms of corruption. (3+6+3)

