RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College under University of Calcutta)

B.A./B.SC. FIFTH SEMESTER EXAMINATION, DECEMBER 2013

THIRD YEAR

ECONOMICS (Honours)

Date : 19/12/2013

Time : 11 am – 3 pm

Paper : VI

Full Marks : 100

[Use a separate answer book for each group]

Group – A

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

   a) Consider a small, Keynsian open economy without external repercussions.
      - i) Write down the goods market equilibrium condition of the model, clearly explaining the underlying assumptions.
      - ii) What will be the magnitude of impact of a rise in autonomous investment expenditure on real income and trade balance in this model?
      - iii) Compare your results under (II) above with the case when autonomous exports, instead, rise by same magnitude.
      - iv) Prove a diagrammatic exposition of your answers in (II) and (III). [3+(1½+1½)+2+2]

   b) Distinguish between expenditure switching and expenditure reducing policies. Show with the help of Swain diagram how an economy can attain both internal and external balance using a combination of exchange rate and government expenditure management policies. [4+6]

   c)
      - i) Distinguish between nominal and real exchange rates.
      - ii) Explain the concept of forward premium. What will be the appropriate market spot or forward in which to sell dollar if dollar market exhibits forward premium?
      - iii) Distinguish between futures market and options market. [2+3+1+4]

   d) Distinguish between uncovered and covered interest parity conditions. From the relationship explain the linkage between spot and forward exchange rates. [7+3]

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

   a) Write a short note on Marshall-Lerner condition in the context of currency devaluation. [5]

   b) Explain the effectiveness of fiscal and monetary policy for an open economy with fixed exchange rate. [5]

3. Answer **any two** questions :

   a)
      - i) Explain two reasons in favour of Government intervention in a marker economy.
      - ii) Define Public Good. Explain its major properties. [4+6]

   b) Explain the process of pricing of Public goods in a General Equilibrium framework. Explain, in this context the difference in efficiency condition in the presence of a Public good. [6+4]

   c)
      - i) What do you mean by excess burden of commodity taxation? Explain your answer using partial equilibrium approach.
      - ii) Show that magnitude of excess burden depends on price elasticities of demand and supply.
      - iii) Do you think an indirect tax necessarily involves excess burden compared to an equal-yield direct tax? Explain your answer. [3+3+4]

   d) Explain the concept of Rechardian equivalence. What are its limitations? [6+4]

4. Answer **any one** question :

   a) Explain how income tax affects the labour-leisure choice of individuals. [5]

   b) Discuss the alternative concepts of 'equal sacrifice' as contained in the ability-to-pay principle. [5]

Group – B

5. Answer **any two** of the following questions : [2×5]

   a) What do you mean by Rationing of Credit?

   b) Describe the major advantages of living in a society?

   c) What are the objectives of land-reform in less developed country?

   d) In what way, if any, does the Harris-Todaro model represent an improvement over the Lewis model? Explain your answer?

6. Answer **any two** questions : [2×8]

   a) Explain the conditions of corruption.

   b) Briefly describe the Lender's Risk Hypothesis argument in explaining the high interest rates in informal credit markets.

   c) Define institutions. Why are institutions critical for economic development? Answer with suitable examples.

   d) Show that fixed-rent system is demonstrably superior to sharecropping arrangement, not only from a social efficiency angle, but also from landlord's individual rationality.

7. Answer **any two** questions : [2×12]

   a) Explain, with the help of a model, how involuntary unemployment can exist in a labour market. What role can land reforms play in this regard? [9+3]

   b) Show with respect to Sen's model that zero marginal productivity of labour is neither necessary nor sufficient for the existence of surplus labour. [12]

   c) i) ‘‘A risky borrower is willing to pay a higher rate of interest than the safe borrower, and the interest rate is independent of the probability of success of the project for which the borrowing was done.’’ Explain this in the light of a credit rationing model. Does the lender have an incentive to raise the interest rate given that probability of success of the project is low under this framework?

      ii) Will the lender be able to charge higher rates if there is a penalty on default? Explain with reference to (i). [8+4]

   d) Explain the concept of rent seeking activity. Using an example show that rent seeking can change the market outcome in favour of one group to the detriment of other. [12]