RAMAKRISHNA MISSION VIDYAMANDIRA
(Residential Autonomous College under University of Calcutta)

B.A./B.Sc. FIFTH SEMESTER EXAMINATION, DECEMBER 2014
THIRD YEAR

Date : 23/12/2014

ECONOMICS (Honours)

Time : 11 am – 3 pm

Paper : VI

Full Marks : 100

[Use a separate Answer book for each Group]

Group – A
Unit - I

Answer **any two** questions from **Q.No. 1-4** : [2×10]

1. Explain, with reasons, why the autonomous expenditure multiplier is smaller for an open economy then a closed economy?
   What happens if— i) Exchange rates are allowed to be market determined?
   ii) External repercussions are considered? [4+3+3]

2. Explain the concept of Interest parity condition. How does it help to link spot and future exchange rates? [6+4]

3. Distinguish between expenditure switching and expenditure reducing policies. Explain briefly how the Swan diagram helps to find exchange rate and government expenditure consistent with both internal and external balances. [3+7]

4. In the context of Mundell-Fleming model compare and contrast the effectiveness of fiscal and monetary policies under fixed exchange rate with capital immobility and with perfect capital mobility. [10]

Answer **any one** question from **Q.No. 5-6** : [1×5]

5. Distinguish between :
   a) Clean Float and dirty float
   b) Futures and Options [2½+2½]

6. What is J-curve phenomenon? Explain clearly. [5]

Unit - II

Answer **any two** questions from **Q.No. 7-10** : [2×10]

7. When there is diminishing marginal utility of income, the difference between the tax payment of a rich person and that of a poor person is larger under the equiproportional sacrifice rule than that under the equal absolute sacrifice rule. It is however, the largest under the equimarginal sacrifice rule. Do you agree? Explain. [10]

8. Suppose two individuals A and B representing two different groups have an identity,
   X given by $X = A - BP$; where $P \equiv$ price of X.
   However, A enters directly into the market for X, but B does not. The latter benefits from A's consumption of X. How do you interpret the demand functions of the two individuals? How will you sum up the two demand functions to derive the socially optimum level of production of X? Explain. [5]

   Suppose the cost of production of X is given by the cost function $C = aX$, where C denotes the total cost of production (and $a > 0$]. How much X will the market produce? What is socially optimum level of X? Why does the market fail to produce the socially optimum outcome? What are the different ways in which the socially optimum out come can be achieved? Quantify and explain your answer. [5]

9. Compare the three approaches, namely Domer approach, solvency approach and Ricardian equivalence, to the problem of sustainability of public debt. Which of the three will you prefer and why? [10]

10. Distinguish between direct and indirect taxes. What do you mean by excess burden of taxation? Explain your answer with reference to indirect tax. In terms of labour-leisure choice framework, examine the impact, if any, on work effort of an imposition of proportional wage tax. [2+4+4]

Answer **any one** question from **Q.No. 11-13** : [1×5]

11. Is there any way that market can internalize the externalities? [5]

12. What do you mean by progressive income tax structure? Explain. [5]

Group – B
Unit - I

Answer **any two** questions from **Q.No. 13-16** : [2×10]

13. "Irregular garments with slight imperfections sell at half price. Companies can fail due to bad marketing, even if the product design, manufacturing, and accounting are excellent. Your local restaurant does not hire famous chefs, and Grand Hotel does not hire teenage waiters." Which model do you think better explain these phenomena? Discuss in detail and also explain the further implications of the model you are referring to. [10]

14. a) How can you relate coordination failure to complementarities?
    b) Show that coordination failure can give rise to an undesirable low level equilibrium even under the presence of 'privately rational decision function'. [3+7]

15. "European reconstruction after World War II and Asia, Latin America's development efforts spurred economists to explore options for promoting economic development. At times economic development became synonymous to economic growth. And in this regard two different theories evolved — balanced growth and unbalanced growth."
    a) Do you believe that a country should proceed through a chain of disequilibria in its growth path? What are the possible linkage effects of such growth strategy? [2+5]
    b) 'The unbalanced growth strategy does not require any planning' —Do you agree? Give reasons. [3]

16. a) Discuss several conflicts faced by a less developed country. Also assuming an exogenously given wage rate show that there is a conflict between present employment and savings, depending on the choice of techniques. [6]
    b) What will happen if we relax the assumption of 'exogenously given' wage rate? [4]

Answer **any one** question from **Q.No. 17-18** : [1×5]

17. 'Some non-monetary indices are often needed to indicate the true dimension of economic progress of a nation' —Elucidate this statement with the help of an non-monetary index of economic development. [5]

18. Point out the distinctions between A. K. Sen and Goulet's idea of development. [5]

Unit - II

Answer **any one** question from **Q.No. 19-20** : [1×10]

19. Evaluate the validity of the following statements : [4×2·5]
    a) A developing country is likely to have an overall death rate that is lower than that of a developed country.
    b) The population of Europe and North America grew at a combined rate between 1750 and 1900 that significantly exceeded the population growth rates of developing countries at that time.
    c) If country A has a population growth rate that is lower than country B then the average women in country A has less children than her counterpart in country B.
    d) Birth rates may be high even when death rates may be falling.

20. a) What is meant by hidden momentum of population growth? [2]

b) "Different stages of demographic transition have got a close relationship with the stages of economic development of a nation' —Explain. [8]

Unit - III

Answer **any one** question from **Q.No. 21-22** : [1×15]

21. a) Please read the following carefully and answer the questions

The World Development Report (World Bank [1990, Box 2.2]) discussed the effect of an increase in rice prices on poverty in Java, Indonesia, in 1981. Households close to the poverty line were found to be, on average, net producers of rice, the main food staple. So the price hike presumably helped them, and indeed, the head-count index of poverty fell. But the study found that many of the poorest people are not rice producers but landless labourers or farmers with other sources of income. They are net consumers of rice and they are adversely hit.

   i) Does how we measure poverty really matter? Answer in view of the above case.

   ii) Suggest a suitable poverty measure and explain why it could register the change in the above case. Also mention its distinguishing features. [3+5]

b) What is capacity curve? If a low-income-undernutrition-low-income circle is possible in poor countries, why is it not possible for some groups of people in rich countries? [2+3]

c) When an inequality measure is said to be Lorenz consistent? [2]

22. a) Why the incentives to repay the loan for the poor are limited? [2]

b) Is the following statement true, false or uncertain? Back up your answer with a brief, but precise explanation.

   i) The ethical principles of inequality measurement – anonymity, population, relative income, and transfers – are enough to compare any two income distributions in terms of relative inequality. [3]

   ii) If a relatively poor person loses income to a relatively rich person, the coefficient of variation must rise. [2]

   iii) The mean absolute deviation as a measure of inequality is sensitive to the Dalton principle. [2]

   iv) Kuznets ratios are essentially 'pieces' of the Lorenz curve. [2]

c) "Unequal consumption allocations create greater household work capacity than equal allocations" – Explain. [4]

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