

RAMAKRISHNA MISSION VIDYAMANDIRA

(Residential Autonomous College affiliated to University of Calcutta)

FIRST YEAR [2019-22]

B.A./B.Sc. FIRST SEMESTER (July – December) 2019

Mid-Semester Examination, September 2019

Date : 16/09/2019

Time : 1 pm – 2 pm

ECONOMICS (Honours)

Paper : II (CC2)

Full Marks : 25

Answer **any five** questions of the following:

[5 × 5]

- 1) Describe whether the following transactions are included in GNP calculation or not. If yes, then how much would it affect the GNP?
 - i) Your local football-maker purchases a new football-producing machine to produce better quality footballs, which costs Rs. 1.50 lakh.
 - ii) In the financial year 2018-19, the local football-maker produced 200 footballs. Out of them, he sold 170 at Rs. 200 each. The football-maker also had 10 footballs made in the earlier year. He sold them at a reduced price of Rs 150 each. (2+3)
- 2) Suppose in a market, the demand and supply curves of labour are $L^D = 15 - 3W$ and $L^S = -10 + 2W$ respectively. (Here W represents wage in Rs.) What is the market-clearing wage rate? Suppose in this market, the producer sets the wage at Rs. 15. What can be the possible reason for that? (2+3)
- 3) Consider an economy with the following characteristics:
 $C = 1500 + 0.6(Y - T)$
 $T = 1800$
 $I = 2400$
 $G = 2000$
 - i) Find the equilibrium income and the marginal propensity to save. (1+1)
 - ii) Compute the value of the multiplier. How much will equilibrium income increase if government spending increases by 10 units? (2+1)
- 4) Consider the case of a product market, characterised by the following equations:
 $C = 1500 - 20r + 0.6Y$; $I = 2450 - 60r$; $G = 1980$. Derive the IS curve. Determine its slope and find the value of the autonomous expenditure multiplier. 1+(2+2)
- 5) Show how the government's decision to undertake any fiscal or monetary policy depends on the slope of IS and LM curves. (5)
6. Examine the role of fiscal policy in IS-LM framework when :
 - i) Investment does not depend on interest rate. (2.5)
 - ii) Demand for money is independent of interest rate. (2.5)

7. Consider an economy with the following characteristics:

GNP = 3000

Consumption of Durables = 1000

Consumption of Non-Durables = 500

Business Fixed Investment = 1000

Residential Investment = 200

Unemployment insurance by Government = 50

Government Purchase of Goods and Services = 100

Income Earned by Indian Nationals Abroad = 50

Income Earned by Foreigners in India = 70

(all figures are given in Rs. Crores)

Find —

i) Inventory accumulated during the period

ii) GDP

iii) Net Investment if business fixed investment depreciates by 10% while others have no depreciation. (1+2+2)

8. Suppose an economy is facing a situation where the rate of interest is so low that any further decrease in the rate of interest will lead to a withdrawal of the entire amount of money from bonds.

How can you raise the income level of the economy in this situation? (5)

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