

[This question paper contains 2 printed pages.]

Sr. No. of Question Paper : 5052

Your Roll No.....

Unique Paper Code : 248401

Name of the Paper : Macroeconomics – II

Name of the Course : B.A. (Hons.) Business Economics

Semester : IV (2016)

Duration : 3 Hours

Maximum Marks : 75

**Instructions for Candidates**

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt any five questions.
3. All questions carry equal marks.
4. All parts of the question must be attempted collectively.

1. (a) Discuss the evidence that was consistent with Keynes's conjectures and the evidence that was inconsistent with them. (7.5)  
(b) Explain how does the life cycle hypothesis resolve the contradictory evidences regarding consumption behavior. (7.5)
2. (a) Explain that the cost of owning capital by a rental firm depends on relative price of capital goods, real interest rate and depreciation rate. (7.5)  
(b) Explain why an increase in interest rate reduces the amount of residential investment. (7.5)
3. (a) Discuss the conditions for the golden rule level of capital. (7)

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- (b) Explain how the economy can reach the golden rule steady state starting with (i) too little capital; (ii) too much capital. (8)
4. (a) How does the real exchange rate affect real value of exports and imports of a nation? (7)
- (b) What is the money multiplier? Who are the three major participants involved in the determination of the money supply? Briefly explain their roles. (8)
5. (a) How does an increase in the risk premium affect the level of income and exchange rate to equilibrate the goods and money markets? (7)
- (b) How does an expansionary (i) fiscal policy and (ii) monetary policy affect the aggregate income, exchange rate, trade balance of a small open economy under flexible exchange rate system? (8)
6. (a) Identify the benefits of inflation and discuss that "inflation is not all bad". (7)
- (b) Discuss that to stabilize output at natural level, inflation targeting is better than nominal money growth targeting. (4)
- (c) Explain why wars typically bring about large budget deficits. (4)
7. Write short notes on any **three** of the following : (5×3)
- (a) J curve effect
- (b) Tobin's q
- (c) Marshall Lerner Condition
- (d) Advantages and Disadvantages of Floating Exchange Rate
- (e) Convergence in Solow model