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Your Roll No.....

Sr. No. of Question Paper : 9575
Unique Paper Code : 12481401
Name of the Paper : Macroeconomics & Applications – II
Name of the Course : B.A. (Hons.) Business Economics,
2018 (CBCS)
Semester : IV
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 all questions.
 3. All questions are compulsory.
 4. Illustrate your answer with suitable diagrams, whenever required.
 5. The number of marks carried by each question is indicated at the end of the question.
 6. Both parts of each question must be done together.
- (a) How does consumer maximise his consumption bundle when he faces inter temporal choice budget constraints?

(5)

P.T.O.

- (b) According to Dale Jorgensen theory of Business Fixed Investment the cost of owning capital by a rental firm depends on relative price of capital goods, real interest rate and depreciation rate. Discuss. (10)

OR

Explain an effect of following on inter temporal budget constraints, assuming consumer is a saver and he lives for two time periods only

- (i) An increase in income of consumer in period one
 (ii) A rise in real interest rate (5+5)
2. (a) From given hypothetical data, find out the value of money multiplier (m) for year 2014 which is the last column of the below table, using both alternatives where

$$(i) m = 1 / \{(x_1 + x_2) (1 - \theta) + \theta\}$$

$$(ii) m = 1 + \alpha / \alpha + x$$

α and θ are behavioral ratios.

Table 1 Components of Reserve Money (INR Billion)

	31 March 2010	31 March 2012	31 March 2014
Currency in circulation	3270	3686	4306
Bankers and other deposits with RBI	1094	1204	1423
Reserve Money	4364	4890	5729

Table 2 Application of Money Stock (INR Billion)

	31 March 2010	31 March 2012	31 March 2014
Currency with Public	3149	3557	4131
Demand Deposits	2586	2840	4052
Time Deposits	14269	16076	19042
Other Deposits	51	65	68
Narrow Money	5787	6462	8252
Broad Money	20057	22540	27295

(5+5)

OR

When the real exchange rate takes small values, the elasticity of the demand for imports is less than unity and a rise in the exchange rate increases imports. Explain. (10)

(b) What causes an investment function to shift? Explain with the help of appropriate diagram. (5)

OR

How does the real exchange rate affect real value of exports and imports of a nation? Use suitable diagram to substantiate your answer.

(a) Explain the steady state with technological progress in the Solow model. In what way is this different from the model with population growth but without technological progress? (10)

OR

P.T.O.

Using Solow Model find out the value of steady state capital per worker, given that production function is $Y = K^{1/2}L^{1/2}$ & per worker production function $y = k^{1/2}$, 30 percent of the output is saved, 10 percent of the capital stock depreciates every year and economy starts off with 4 units of capital per worker. Find out the value of investment and depreciation at steady state.

- (b) Define golden rule level of capital. What is MP_k (Marginal Product of Capital) and rate of depreciation when economy grows along golden rule level of capital?
4. (a) How do an expansionary i) fiscal policy and ii) monetary policy affect the aggregate income, exchange rate, trade balance of a small open economy under floating exchange rate system?
- (b) Describe an equilibrium condition in a small open economy according to Mundell-Fleming model using IS-LM framework.
5. (a) Identify the benefits of inflation and discuss "inflation is not all bad".
- (b) Discuss that to stabilize output at natural level inflation targeting is better than nominal money growth targeting.