

## SET A OBE

<b>Unique Paper Code</b>	:	<b>12481301</b>
<b>Name of the Paper</b>	:	<b>MACROECONOMICS &amp; APPLICATIONS I</b>
<b>Name of the Course</b>	:	<b>B.A (H) Business Economics</b>
<b>Semester</b>	:	<b>III</b>
<b>Duration</b>	:	<b>2 Hrs.</b>
<b>Maximum Marks</b>	:	<b>75</b>

Instructions for Candidates:

Attempt **Any FOUR** questions.

All questions carry equal marks.

Illustrate your answer with suitable diagrams, whenever required.

1. What are the components of national income from the perspective of expenditure in the four-sector economy? Describe with suitable examples. How does household consumption expenditure play an important role in determination of GDP? Explain.
2. “In the short run, goods market and money market plays central role in determination of the equilibrium level of GDP and interest rate”. Describe the derivation of IS and LM curve in a closed economy and explain the effect of an increase in budget deficit on the equilibrium level of output and interest rate.
3. A hypothetical economy is described by following equations:  
 $C=150+0.60Y_D$  Where C stands for consumption and  $Y_D$  for disposable income  
 $T=0.30Y$  where T stands for Taxation and Y is income  
 $G=400$  where G is government expenditure  
 $I=300-5i$  where I is Investment expenditure and i stands for interest rate

$L=0.5Y-5i$  where L stands for Liquidity or demand for money and i stands for interest rate

$M=500$  where M is nominal money supply

$P=1$  where P is price level

Given above equations, derive IS and LM equation and show it graphically along with an equilibrium level of income and interest rate for an economy. Describe an effect of contractionary fiscal policy where G is reduced from initial level of  $G=400$  to a level  $G=300$ . Calculate the effect of policy change on equilibrium level of income and interest rate. Also calculate level of consumption and investment post fiscal policy change.

4. Describe the derivation of wage setting and price setting relations in a closed economy. How do policy changes like stringent anti-trust law or external shocks like increase in prices of oil affects natural rate of unemployment? Explain.
5. What is NAIRU? Discuss the concept of sacrifice ratio according to traditional approach to achieve disinflation. How do expectations and nominal rigidities approach to disinflation is different from traditional approach? Elaborate.
6. Write short notes on any two
  - a. Menu cost and aggregate demand externalities
  - b. Great Depression
  - c. Nominal rigidities