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Your Roll No.....

Sr. No. of Question Paper : 2083  
Unique Paper Code : 12481301  
Name of the Paper : Macroeconomics & Applications  
- I  
Name of the Course : **B.A. (Hons) Business  
Economics, 2018 (CBCS)**  
Semester : III  
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. Illustrate your answer with suitable diagrams, whenever required.
4. The number of marks carried by each question is indicated at the end of the question.
5. All parts of each question must be done together.

1. Consider the following statements whether true or false. Give reasons in support of your answer (Attempt any five)

P.T.O.

- (a) In the closed economy 'aggregate domestic expenditure equals aggregate expenditure on consumption by households, on investment by business units and aggregate spending by government.
- (b) The Central Bank decreases the supply of money by selling bonds in the market for bonds.
- (c) The IS curve is downward sloping because goods market equilibrium implies that an increase in taxes leads to a lower level of output.
- (d) In the medium run natural rate of unemployment is unaffected by policy changes but it can be changed by change in input prices like oil product prices.
- (e) Expansionary monetary policy has no effect on the level of output in the short run and medium run.
- (f) In the medium run, prices and output always return to the same value. (5×3=15)

2. Suppose an economy it is given that

$$C = 200 + 0.8 Y_D$$

$$t = 0.25$$

$$I = 700 - 50 i$$

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$$T = 1000$$

$$L = 0.25 Y - 62.5 i$$

$$G = 800$$

$$M/P = 500$$

$$Y_D = Y - tY$$

- (a) Find the equilibrium of the economy.
- (b) Find out the equilibrium of the economy if  $G$  changes from 800 to 1100.
- (c) Find out the equilibrium of the economy if  $t$  changes from 0.25 to 0.375.
- (d) Find out the equilibrium of the economy if  $L$  changes from  
i.  $L = 0.25 Y - 62.5i$  to  $L = 0.20 Y - 25 i$
- (e) Find out the equilibrium of the economy when  
 $L = 0.20 Y - 25i$  and  $t = 0.375$ . (5×3=15)

**OR**

Describe the derivation of IS curve using Keynesian cross (AD-AS) and Investment-Saving approach. How does increase in govt. spending affects it? Explain.

(10+5=15)

3. In the Medium run, how do following changes affect wage setting -Price Setting. (labour Market)

P.T.O.

- (a) An Increase in Unemployment Benefits
  - (b) Provisions of Unemployment Allowances
  - (c) A less stringent enforcement of existing anti-tax legislation (5×3=15)
4. Assuming the expected price level ( $P^e$ ) is zero, explain wage-price spiral situation in an economy. Explain how the Phillips curve is closely related to the Natural rate of unemployment? (10+5=15)

**OR**

- How do modified Phillips curve or mutations of Phillips curve are different from original Phillips curve? Explain how the Phillips curve is closely related to Natural rate of unemployment. (15)
5. 'New Keynesian economics provides a better explanation of stickiness of wages and prices in the short run.' Discuss. (15)

**OR**

Write short notes on the following :

- (a) Quantity theory of money
- (b) Lucas critique (7.5×2=15)