

## Online Open Book Based Exam

SET A

Unique Paper Code : 12481301

Name of the Paper : Macroeconomics & Applications I (CBCS)

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

Semester: III

Duration : 2 Hrs.

Maximum Marks : 75

Instructions for Candidates:

Attempt **Any FOUR** questions.

All questions carry equal marks.

Illustrate your answer with suitable diagrams, whenever required.

1. What is GDP deflator? What are the advantage and disadvantage of it over other indices like CPI & WPI? Which is better index to truly reflect change in price level. Discuss.
2. What do IS-LM denotes in the context of goods and money market in a closed economy? Describe the derivation of IS and LM curve in a closed economy. How do expansionary fiscal policy affect the level of output and interest rate in an economy? Explain.
3. An economy is described by following equations:  
 $C=100+0.80Y_D$  Where C stands for consumption and  $Y_D$  for disposable income  
 $T=0.20Y$  where T stands for Taxation and Y is income  
 $G=250$  where G is government expenditure  
 $I=250-5i$  where I is Investment expenditure and i stands for interest rate  
 $L=0.4Y-4i$  where L stands for Liquidity or demand for money and i stands for interest rate

$M=600$  where  $M$  is nominal money supply

$P=2$  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 expansionary fiscal policy where  $G$  increase from initial level of  $G=250$  to  $G=300$  on equilibrium level of income and interest rate. Also calculate consumption and investment at pre and post fiscal policy change.

4. Suppose initially an economy is operating at natural level of output in medium run at the intersection point of AD and AS curve. Describe the effects of policy shocks in the form of an expansionary monetary policy in the short run and medium run. Substantiate your argument with appropriate diagrams.
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. What were the major causes of 1930s 'Great Depression' which led to an origin of macroeconomics thoughts? Discuss the characteristics of 'Great Depression' which were reflected in worldwide recession during thirties.