

30 DEC 2023

NATIONAL LAW UNIVERSITY, JODHPUR

End Term Examination October- November, 2023

Semester: UG V

Subject: Economics II (General Principles of Macroeconomics)

Time: Three Hours

MM: 100

- Instructions:** 1. Attempt any five questions
2. Non- scientific calculators are allowed.
3. Follow examination protocols

Q.1) (a) Explain the handy model of macroeconomic activity that shows the interaction between the households, firms and government in globalized world through the product, resource and the financial market. How can you say that balance between injection and leakage generates the same equilibrium between aggregate expenditure and aggregate production?

(b) 'Some economic variables are determined by the economic models, while others are usually assumed to be determined by factors outside of our models'. Justify the given statement with suitable examples.

(Marks 12+8=20)

Q.2) (a) Suppose a woman marries her butler. After they are married, her husband continues to wait on her as before, and she continues to support him as before but as a husband rather than as an employee. How does this marriage affect GDP and what do you think how should this marriage affect GDP? Critically examine GDP as a measure of economic welfare.

(b) Explain Quantity theory of Money (QTM). How it is mechanical in nature? Suppose money supply is Rs 200 crore and real output is 1000 units, and the price per unit of output is Rs 1. (i) What is the turn over velocity, (ii) If velocity remains constant what QTM suggest will happen if RBI increases money supply to Rs 400 crores and (iii) Is your answer in part (ii) consistent with classical dichotomy?

(Marks 10+10=20)

Q.3) (a) Suppose full employment occurs at a level of income Rs 1200 crore and currently equilibrium income is Rs 1000 crores and MPC is 0.80. If government wishes to bring economy to a position of full employment, what are the necessary changes required in (i) government expenditure, and (ii) net tax revenues, and (iii) net tax revenues and government expenditure when government is committed to balanced budget? Explain the underlying concepts.

(b) Derive LM curve from money market equilibrium. Why does it slope upwards? Suppose Reserve bank of India increase money supply then how will LM curve shift with increase in money supply.

(Marks 10+10=20)



Q.4) (a) "Unemployment and inflation are known as the 'twin evils' of macroeconomics because they can threaten the vast structure of society if not controlled." Justify this statement. Examine how these two are related in short run and long run.

(b) Discuss business cycle indicators. How does innovation generate continuous cyclical fluctuations in the economic activity? Explain.

(Marks 12+8=20)

Q.5) (a) Indian government purchases fighter jets from Hindustan Aeronautics Limited. Discuss the multiplier and crowding out effects of this purchase on aggregate demand.

(b) This project with many other big infrastructural projects opens an inflationary gap in the economy. Graphically represent this and suggest two most effective qualitative and quantitative (reducing multiplier effect) monetary policy tools to close this gap.

(c) Quantitative easing is an energy booster for dying economies, explain how?

(d) What policy mixture Swan used to maintain internal and external balance in an economy?

(Marks 4+6+4+6 =20)

Q.6) (a) Draw the demand and supply curve for dollar taking rupee as the domestic currency. An income tax rebate is announced by the Indian government pushing up the demand for foreign goods. Assuming a fixed exchange rate regime in the country answer the following questions:

(i) Does the Rupee appreciate or depreciate or stay put? Give reasons

(ii) How and why would RBI have to intervene?

(iii) How would it sterilize the impact of intervention?

(b) Distinguish between visible and invisibles components in the Balance of Payment Account. Define fundamental disequilibrium and suggest monetary measures to correct it.

(c) Crawling peg is a better regime than currency board arrangement, comment.

(Marks 7+8+5=20)