

25 OCT 2024

NATIONAL LAW UNIVERSITY, JODHPUR

Re-Mid Term Examination- 2024

U.G. V Semester

Economics- II (General Principles of Macroeconomics)

MM: 50

Time: 90 Minutes

Instructions: 1. Follow Examination Protocols

2. Calculator is allowed.

3. There is internal choice in Q.No.4

Q.1) Consider an economy where households, businesses, and the government interact within the economic system. A new policy has been introduced, allowing businesses to receive subsidies from the government for employing more workers, while households are required to pay higher taxes to support these subsidies.

How might these changes affect the movement of money within the economy? Reflect on how the introduction of government spending and increased taxes might influence the overall economic flow and stability. Identify and explain the underlying concepts.

Marks (10)

Q.2) Explain the concept of aggregate production function. How would you expect the production function to be affected due to increased education of the labour force? How would such a shift in the production function affect the levels of output and employment in the Classical model? Explain with suitable assumptions and diagram.

Marks (20)

Q.3) (a) Distinguish between Required Reserve Ratio and Cash Drainage Ratio and explain how these two ratios are related to total money supply and Monetary Base. (Marks 4)

(b) The Central bank of a country increases money supply which opens an output gap in the economy. Graphically represent and explain the channel that creates this gap and the type of the gap that opens. How Open Market Operations and Fixed Margin Requirement would help in closing the gap?

Marks (2+2+2 = 6)

Q.4) Renowned economist Simon Kuznets, one of the architects of GDP, once noted, 'The welfare of a nation can scarcely be inferred from a measurement of national income.'

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Given this perspective, consider the limitations of using GDP as a measure of true economic welfare, especially when it includes expenditures on pollution control or rising healthcare costs due to environmental degradation. How might Green National Income Accounting better capture the long-term well-being of the population and the sustainability of growth?

**Marks (10)**

**OR**

(a) A central bank decides to lower interest rates to stimulate borrowing and investment, while simultaneously, an unexpected natural disaster disrupts agricultural production, leading to food shortages.

In this scenario, identify which variables are endogenous to the country's economic model and which are exogenous and explain the difference between the two.

(b) What is money illusion and how does GDP deflator eliminate it? Calculate the GDP Deflator using the following values and examine its effect on price?

GDP at Current Prices: ₹3,500,000

GDP at Constant Prices: ₹2,800,000

**Marks (5+5=10)**

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NATIONAL LAW UNIVERSITY, JODHPUR

End Term Examination November -2024

Semester: UG V Semester

Subject: Economics-II (General Principles of Macroeconomics)

Time: Three Hours

Marks:100

**Instructions:**

1. Question Paper consists of **Three** pages

2. Attempt any **five** questions

3. Calculators are allowed.

4. Follow examination protocols

Q.1 (a) Consider a simplified economy with three sectors—households, businesses, and the government. After a natural disaster, the government launches a significant relief program, injecting funds into the economy and simultaneously introduce new tax to finance this relief program, leading to a decrease in household income. Analyze how the government's injection of funds for relief efforts could affect the overall level of economic activity in the short term and what are implications of the reduction in household income as a leakage from the circular flow.

(b) Calculate Personal Income and Personal Disposable income from the following data:

S.No.	Particulars	₹ in crores
i	Household Final consumption expenditure	1,200
ii	Household Savings	300
iii	Direct tax paid by households	100
iv	Corporation tax	80
v	Interest on national debt	50
vi	Retained earnings of private corporate sector	70

Marks (12+8=20)

Q.2 (a) Some economic variables can be specified at a point in time, while others are measured over a period of time. Explain variables that reflect a quantity at a specific point in time and those that represent changes over time. Discuss any cases where a change in one variable may not have a direct counterpart in another.

(b) "Greening the national income accounts is more important for economic policy than for environmental policy especially for those countries whose natural resources are rapidly eroding, and the erosion is counted misleadingly in GDP as value added." Elucidate the given statement with suitable examples.

**Marks (5+15=20)**

Q.3(a) Discuss how the intersection of the IS and LM curves determines the interest rates and output levels?

(b) In an economy:  $C = 25 + 0.80 Y_d$ , where,  $Y_d = Y - T$

$I = 100$  Crores

$T = 100$  Crores

$G = 75$  Crores

(i) What is the level of equilibrium income (Y)? Suppose investment declined by 40 unit to a level of 60. Find new level of equilibrium income.

(ii) Define fiscal multiplier and determine the value of government expenditure and tax multiplier.

**Marks (12+4\*2=20)**

Q.4 (a) Explain the meaning and determinants of the velocity of circulation of money (V). How it is related to the Cambridge K? How can you say that quantity theory is the implicit theory of the aggregate demand for output within the Classical system?

(b) Examine how demand-pull and cost-push inflation can arise simultaneously in an economy. Illustrate a scenario where increasing consumer demand occurs alongside rising production costs. How do these two types of inflation interact and amplify each other, potentially creating a feedback loop? Discuss the broader macroeconomic effects of this interaction on price levels, output, and employment.

**Marks (8+12=20)**

Q. 5(a) Explain the following questions with the help of graphs:

(i) What makes short run aggregate supply curve horizontal over some range of real GDP and increasing and vertical after some point?

(ii) What gap appears when the actual output remains less than potential level output and how that can be removed?

(iii) How can politically popular fiscal policy be risky for an economy already operating at full potential? Why this risk is less or nil with monetary policy?

(b) Differentiate between Monetary Base and Broad Money. Which of the two contributes more to credit creation and how? Illustrate with an example.

(Marks 4+4+7+5=20)

Q.6. (a) What are the components of the Balance of Payments (BOP), and how does it always balance? Discuss the causes of disequilibrium in the BOP and two corrective measures that can be taken to address these imbalances.

(b) What is the J-Curve effect in relation to currency depreciation?

Marks (15+5=20)