

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** pages2. Attempt any **five** questions

3. Calculators are allowed.

4. Follow examination protocols

Q1. (a) "The economy is a wholly owned subsidiary of the environment, not the other way around". In light of this statement, discuss how GDP can reflect economic performance and how does it fail to capture environmental and social well-being. Also, examine Nordhaus's Measure of Economic Welfare and analyze how they complement or contrast with GDP in assessing overall societal progress.

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

S.No.	Particulars	₹ in crores
i	Miscellaneous Receipts of government administrative department	800
ii	Corporate Tax	1200
iii	Undistributed profits of private corporate sector	1600
iv	Personal Direct Taxes	2000
v	Private Income	24,000

Marks (12+8=20)

Q.2) (a) Individuals balance their preferences for leisure time against the necessity to work. Explain how labor-leisure trade-off is used in determining individual labor supply decisions.

(b) Define liquidity trap. Derive the LM curve from Liquidity Preference Theory. How does a decrease in the money supply by the Reserve Bank of India shift the LM curve and what are the economic implications?

Marks (8+12=20)

Q. 3 (a) Assume that the marginal propensity to consume (MPC) in an economy is 0.8. Calculate the government expenditure multiplier. If the government increases its spending by $\Delta G=400$, what will be the resulting change in equilibrium income?

(b) Using the same MPC, calculate the tax multiplier. If the government implements a tax cut of $\Delta T=-200$, what will be the resulting change in equilibrium income?

(c) Explain why the government expenditure multiplier is positive, whereas the tax multiplier is negative.

(d) Consider the growing demand for electric vehicles. How do individual consumer choices (micro) regarding the purchase of these vehicles affect broader economic indicators like GDP growth and employment in the manufacturing sector (macro)? Explain with interrelationship between Micro and Microeconomics in this context.

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

Q.4) (a) The investment multiplier and accelerator are two powerful forces: the former amplifies initial changes, while the latter propels growth through increased investment. Together, they can drive a nation toward prosperity or lead it into recession. Elucidate the given statement.

(b) Identify the type of inflation arising from recent geopolitical tensions and supply chain disruptions. What are the various sources contributing to this inflation? Analyze how these factors have created a recessionary gap in various economies. Illustrate with a relevant diagram.

(Marks 10+10=20)

Q.5(a) Explain how an economy, in a fractional reserve banking system, creates more credit and expands money supply with a given monetary base? Graphically represent and analyze the impact of this change on interest rate in the money market and real GDP when the economy is already working at its full potential.

(b) Distinguish between fine tuning and gross tuning with respect to fiscal policy? Why most of the economists believe that fiscal policy should not be used for economic stabilization under any circumstances? If this belief is considered how would economies recover from business cycles?

(Marks 10+10=20)

Q:6) (a) Explain the concept of leading, lagging, and coincident indicators in relation to the business cycle. Discuss how certain leading indicators may predict the recovery, while lagging indicators might confirm it later.

(b) Compare and contrast fixed and floating exchange rate regimes with pros and cons of each? How do policy responses differ under both exchange rate systems during a balance of payments crisis?

(c) Briefly explain Marshall Lerner condition.

Marks (8+8+4=20)