

NATIONAL LAW UNIVERSITY, JODHPUR

Re-Midterm Examination - 2025

Semester: UG V

Subject: Economics -II

(General Principles of Macroeconomics)

Time: One hour and Thirty Minutes

Marks: 50

Instructions: 1. Non-scientific calculators are allowed

2. No clarifications shall be sought during the examination

Q.1) Suppose an adverse weather shock reduces agricultural productivity. Using the Classical framework, trace the chain of adjustment in output, employment, and real wages. Would the economy still return to full employment? Justify your answer using the Classical Theory.

Marks (10)

Q.2(a) An economy has $M = 2,000$, $V = 5$, and real output $Y = 1,000$. Find the price level and state the assumptions.

(b) Consider an economy where widespread use of e-wallets and instant payment apps allows people to hold smaller cash balances while maintaining the same level of transactions. Using the Quantity Theory framework, explain how this change affects the velocity of money (V) and the stability of the relationship between money supply (M) and nominal income (PY). Explain the "behavioural ratio" and "mechanical ratio" used in the quantity theory of money

Marks (5+5=10)

Q.3) (a) In the vast interconnected web of economic transactions, the continuous flow of income and expenditure serves as the lifeblood that propels closed economies forward. It captures the dynamic flow of money, resources, and goods between households, businesses, and the government, forming the foundation of economic activity. Explain in detail the intricate interplay among economic agents that creates a continuous cycle of income and spending, fueling economic growth, prosperity, and recession.

(b) Environment is a good, which belongs to "everybody" but belongs to "nobody". Therefore, environmental protection is one of the major concerns of the 21st century and is likely to dominate

in the coming years. Explain briefly how environmental domestic product records environmental degradation?

Marks (12+8=20)

Q4 (a) A sudden rise in crude oil prices increases transportation costs across the country. As a result, input costs rise for food producers, manufacturing firms, and service providers. Which analytical approach—**partial** or **general equilibrium**—is more suitable to study the overall economic impact? Why?

(b) Define and calculate private income

S.No	Particular	(₹ in Lakhs)
I	Gross National Product at market price	10,000
Ii	Corporation tax	600
Iii	Interest on public debt	500
Iv	Depreciation	200
V	Net current transfers from the rest of the world	220
Vi	Savings of private corporate sector	240
Vii	Goods and service tax	160
Viii	Income from property and entrepreneurship accruing to government administrative departments	900
Ix	Current transfers from the government	160
X	Savings of non-departmental enterprises	420

Marks (5+5=10)

NATIONAL LAW UNIVERSITY, JODHPUR

End Term Examination August- December, 2025

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.*

Q.1 (a) India's merchandise exports have recently slowed due to weak global demand and new tariff barriers in key markets such as the United States. This decline has affected manufacturing output, employment, investment, and even the value of the rupee. Explain why analysing the impact of this export slowdown requires a general equilibrium approach rather than a partial equilibrium one. (5)

(b) Traditional national income accounting systems largely ignore environmental costs and the depletion of natural resources. However, it can be revised to better reflect the role of natural capital and environmental quality in assessing economic welfare. Evaluate the potential of Green Domestic Product as an alternative measure of sustainable national well-being. (15)

Marks (20)

Q.2 (a) Explain how, in the Classical theory, the interaction between the labour market and the aggregate production function determines the equilibrium levels of output and employment in the economy. (10)

(b) Consider the following 3-sector economy:

$$C = 80 + 0.75Y_d$$

$$I = 120$$

$$G = 200$$

$$T = 100$$

where; C = consumption, I = investment, G = government expenditure, T = lump-sum tax, and (Y) = national income.

(i) Determine the equilibrium level of income. (5)

(ii) Calculate the government-expenditure multiplier and the tax multiplier. If government expenditure and taxes are both increased by ₹20, find the new equilibrium income and the balanced-budget multiplier. (5)

Marks (20)

Q.3 Keynes' Liquidity Preference Theory of Interest explains how money demand influences the rate of interest. According to this theory, when interest rates fall to very low levels, monetary policy becomes ineffective.

(a) Using the liquidity preference framework, explain this situation and illustrate it with a suitable diagram. Derive the LM curve from the liquidity preference theory. (14)

(b) Discuss how unconventional monetary policy tools can help restore the effectiveness of monetary policy under such conditions. (6)

Marks (20)

Q.4. The process of creative destruction explains contemporary technological transformations, such as artificial intelligence and green energy transitions. In your answer:

(a) Explain the key mechanism through which innovation leads to phases of economic expansion and contraction. Discuss how the ideas of the 2025 Nobel laureates — Joel Mokyr, Philippe Aghion, and Peter Howitt deepen understanding of innovation, institutional change, and sustained economic growth. (15)

(b) Evaluate whether the ongoing wave of digital and green innovations could constitute a new long-term *Kondratiev wave* of economic change. (5)

Marks (15+5=20)

Q.5) During a period of rapid economic recovery, consumer confidence rose sharply, credit expanded, and both government and private investment increased. Output initially grew, but soon prices began rising faster than production, and the economy began to show signs of overheating.

(a) Identify and explain the type of *inflation* illustrated in this situation using the aggregate-demand and aggregate-supply framework. (8)

(b) Discuss how the Government of India could use its fiscal policy instruments to contain this inflationary pressure. Differentiate between 'built-in stabilizers' and 'discretionary fiscal policy' in this context and explain how policy lags may impact the timing and effectiveness of these fiscal measures. (12)

Marks (20)

Q6. (a) What are the main components of a country's Balance of Payments (BoP) as per the International Monetary Fund BPM6 Manual (2009)? Explain two factors that cause disequilibrium in the BoP. (10)

(b) How does the Marshall-Lerner condition explain the long-run improvement in the trade balance shown by the J-Curve effect? (10)

Marks (20)

29 SEP 2025

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Q. 1 (a) Explain how individuals decide their labour supply in response to higher real wages. Distinguish between the substitution and income effect as part of the wage effect and explain under what conditions each dominates.

(b) A country introduces advanced automation and artificial intelligence. Examine its effect on the aggregate production function, labour market and output.

Marks (8+7=15)

Q.2 Suppose the Reserve Bank of India increases the money supply by 10%, while the turnover rate of money remains constant. Explain what will be the effect on the price level and output? What factors determine the turnover velocity in the economy? Also, explain the relationship between the turnover velocity of money and the cash holding ratio.

Marks (5+2+5=12)

Q.3) (a) GDP counts expenditures like defense and commuting, which do not directly enhance well-being. What are such expenditures commonly called, and why does their inclusion make GDP an imperfect measure of welfare? What adjustments can improve welfare measurement? Briefly explain how the *hedonic pricing* method evaluates prices using product features and environmental factors.

(b) Calculate Personal Income and Personal Disposable Income

S.No	Particulars	(₹ in Lakhs)
i	Private Income	7,500
ii	Corporation Taxes	500

iii	Undistributed Profits of the private corporate sector	1000
iv	Interest on public debt	2250
v	Direct personal taxes	1250
vi	Miscellaneous receipts of the government, like court fees	750

(c) A country's GDP at current prices is ₹85 lakh crore, while its GDP at constant prices, using a base year, is ₹100 lakh crore. Calculate the GDP deflator for this country. Interpret the meaning of this deflator value in terms of price changes compared to the base year.

Marks (10+5+3=18)

Q.4 Consider the following scenarios and identify which *economic analysis method* will be most suitable in each case. Also, provide reasons.

(a) Policymakers are interested in knowing the current equilibrium level of national income in the economy at a particular point in time, without introducing any change in policy conditions.

(b) A sudden increase in international crude oil prices occurs, and economists want to examine how the final new equilibrium output and price level differ from the earlier situation.

Marks (2.5*2=5)