2024

ECONOMICS — HONOURS

Paper : DSCC-2

(Macroeconomics - I)

Full Marks : 75

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Group - A

1. Answer *any ten* questions : 2×10

(a) Define implicit deflator.

(b) Under what condition, Gross National Product will be less than Gross Domestic Product?

(c) Mention two determinants of investment.

(d) If Marginal Propensity to Consume (MPC) = 0.75, how much additional investment is required to increase income by ₹ 600?

(e) Distinguish between autonomous investment and induced investment.

(f) "The income earned by the Afgan cricketer Rashid Khan from playing IPL in India will be included in India's Gross National Product."— Justify whether the statement is true, false or uncertain.

(g) Define the velocity of circulation of money.

(h) Let a consumption function is given by $C = 100 + 0.5Y$. Derive and draw the savings function in this context.

(i) What is the shape of Aggregate Supply curve under the Classical Model?

(j) Though planned savings equals planned investment, actual savings equals actual investment only at the equilibrium point. True or False? Justify.

(k) State the difference between NNP at market price and NNP at factor cost.

(l) What is depreciation?

(m) How are the following expenditures treated in national income accounting?

(i) Purchase of computers by the Economics Department

(ii) Purchase of computers by you.

(n) How would the current level of full employment output change when a new teaching technique improves the educational performance of high school seniors?

(o) Consider two sets of data for two economies. Suppose government's interest payments are larger in one economy. If everything else is the same, will the investment be larger in the economy where government's interest payments are larger?

Group - B

2. Answer *any five* questions :

(a) In an economy the household buys bread worth ₹ 150 from the baker and flour worth ₹ 20 from the miller. The baker spends ₹ 40 to buy flour from the miller to be used in production. The miller does not purchase any intermediate inputs. Compute Gross Domestic Product by the Value-added method. 5

(b) Define Marginal Efficiency of Capital. How is it different from Marginal Efficiency of Investment? 2+3

(c) Define Balanced budget multiplier. Derive the value of Balanced budget multiplier in a Simple Keynesian model if investment is an increasing function of income. 2+3

(d) What is Say's Law of markets? Can the operation of the law prevent the emergence of involuntary unemployment in the classical model? 2+3

(e) (i) Define inventory.

(ii) Let $C = 100 + 0.75Y$, $I = 20$. Find out the change in the average daily involuntary change in the inventory function, when (A) $Y = 400$ (B) $Y = 500$, where C, I and Y have their usual meanings. 2+3

(f) (i) What happens to GDP when the owner of a small firm marries his secretary and stops paying for her work, which she continues to perform?

(ii) What are the implications of a balanced, deficit or a surplus government budget on the circular flow of income? 2+3

(g) (i) Assume a closed economy model with $Y = C + I + G$.

Suppose that investment demand depends on the level of income, i.e., $I = e + dy$ and $C = a + b\,(1 - t)Y$.

Sketch the spending line for the economy that shows how total spending increases with income.

(ii) What is consumption puzzle? 1+1+3

(h) Explain the mechanism by which an increase in money supply will lead to an equiproportionate increase in price level. 5

Group-C

Answer *any three* questions.

3. (a) In a hypothetical economy

GDP = ₹ 6,000

Gross Investment = ₹ 800

Net Investment = ₹ 200

Consumption = ₹ 4,000

Government purchases of goods and services = ₹ 1,100

Government budget surplus = ₹ 30

Find out the values of NDP, Net exports, Government taxes minus transfers, disposable personal income and personal saving.

(b) How is the gap between savings and investment related to trade deficit? 5+5

4. (a) Compare the values of Government expenditure multiplier in a Simple Keynesian framework when

(i) tax is lump sum

(ii) tax is an increasing function of income.

(b) In an economy an increase in income leads to a 80% rise in consumption. Now if a fresh investment of ₹ 1,000 crores take place in the economy, what will be the change in the equilibrium income? What will be the change in the consumption expenditure and savings due to this increase in investment? {(3+3)+1}+{1+(1+1)}

5. (a) "If marginal propensity to save is greater than marginal propensity to invest, an increase in personal savings leads to the reduction in national income and savings." — Justify the statement with the help of a diagram. What are the relevant assumptions in this context?

(b) If Y = ₹ 525, autonomous consumption = ₹ 80, autonomous investment = ₹ 25, determine the value of marginal propensity to save, where Y has its usual meaning.

(c) Analyse the stability of the equilibrium in a Simple Keynesian Model, when MPC is greater than unity. (4+1)+2+3

6. In a classical model, discuss the impact of (a) Improvement in technology (b) Increase in money supply in the economy with the help of suitable diagrams. 5+5

7. (a) What is the inflationary gap? Explain with diagram.

(b) Distinguish between cost push and demand pull inflation. How can we control the cost push inflation? 3+(3+4)