2021

ECONOMICS — HONOURS

Paper : CC-3

Full Marks : 65

The figures in the margin indicate full marks.

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

Section-A

1. Answer *any ten* questions: 2×10

   (a) Distinguish between GDP and GNP.

   (b) Is investment a stock or a flow variable? — Give reasons.

   (c) What components of GDP would each of the following transactions affect and why?

      (i) Kavita buys a new house.

      (ii) Your parents buy a bottle of French wine.

   (d) An increase in interest payment by the government means an increase in aggregate national saving.
      True or False? Give reasons.

   (e) Suppose $C = 100 + 0 \cdot 77Y$ and $I = 25$
      Derive the equilibrium values of Y and C.

   (f) Why does an exogenous increase in the autonomous expenditure by a given amount raise equilibrium Y
      by a larger amount?

   (g) What is the basic theme of loanable fund theory?

   (h) What is the level of unplanned inventory accumulation at $Y = 850$ if $C = 10 + 0 \cdot 9Y$, $I_0 = 60$?

   (i) What is neutrality of money?

   (j) Mention two factors that determine velocity of money.

   (k) State two shortcomings of the simple classical model.

   (l) Explain liquidity trap.

   (m) Explain the relation between rate of interest and demand for money as an asset.

   (n) What is marginal efficiency of investment?

   (o) What is the simple accelerator principle of investment?

Please Turn Over

Section-B

2. Answer *any three* questions:

   (a) Consider a firm. In 2006, it produced output worth ₹ 40 crore, purchased intermediate inputs of ₹ 20 crore, paid ₹ 20 crore, ₹ 5 crore and ₹ 2 crore respectively in wages and salaries, interest on outstanding loans and repair and maintenance. It did not pay any rent. What are its gross value added and net value added? How are these value added related to the total factor incomes originating from this firm?   3+2

   (b) Using the multiplier process explain why BBM is unity.   5

   (c) Explain the impact of the following on output, employment and real wage:

      (i) increase in money supply

      (ii) increase in production function.   2½+2½

   (d) Explain why the bond market is the mirror image of the money market.   5

   (e) What will be the impact of each of the following on the rental price of capital, cost of capital and investment?

      (i) Anti inflationary monetary policy raises the real interest rate

      (ii) An earthquake destroys part of the capital stock.   2½+2½

Section-C

Answer *any three* questions.

3. (a) What is the difference in the national income accounts between

      (i) A firm's buying an auto for an executive and the firm's paying the executive additional income to buy the automobile himself?

      (ii) You hiring your spouse (who takes care of the house) rather than having him or her do the work without pay?   3+3

   (b) Using national income accounting explain –

      (i) An increase in taxes (while transfers remain constant) must imply a change in net exports, government purchases, or saving investment balance.

      (ii) An increase in disposable personal income must imply an increase in consumption or an increase in saving.   2+2

4. Suppose in a hypothetical economy

   $C = 50 + 0 \cdot 8\, Y_d, \ \bar{I} = 70, \ \bar{G} = 200, \ \overline{TR} = 100, \ t = 0 \cdot 2$

   (a) Calculate

      (i) Equilibrium level of Y and multiplier

      (ii) Budget surplus.

(b) Suppose t increases to 0·25. What is the new equilibrium income and multiplier?

(c) Calculate the change in budget surplus.

(d) Explain why the multiplier is 1 when $t = 1$.   4+2+2+2

5. (a) Describe how a car rental agency would calculate the price at which it will rent cars.

   (b) What are the economic incentives that lie behind the rental firm's investment decision?   5+5

6. How is equilibrium rate of interest determined in Keynesian theory of liquidity preference?   10

7. Is it possible that inspite of rise in personal savings, there is a reduction in the aggregate savings and national income? Justify your answer.   10

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