(iii) Find the equilibrium of the economy if the T changes from 200 to 250 and G changes from 300 to 400. (10)

(b) Explain how interest rate is determined and how it plays a stabilizing role in the classical economy. (8)

5. Write short note on any **three** of the following :

(a) Advantages of flexible exchange rate system

(b) Liquidity trap

(c) Money Multiplier

(d) Natural rate of unemployment

(e) Real GDP and GDP Deflator (6×3=18)

[This question paper contains 4 printed pages.]

Your Roll No..............

Sr. No. of Question Paper : 1325 **F**

Unique Paper Code : 2922071202

Name of the Paper : Macroeconomics

Name of the Course : **Bachelor of Business Administration (BBA) (FIA)**

Semester : II

Duration : 3 Hours Maximum Marks : 90

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.

2. Attempt **all** questions.

1. Explain briefly the following :

(i) Long run Wage inflation and unemployment relationship.

(ii) Differentiate between fixed, clean float and dirty float exchange rate.

(iii) Relationship between the velocity of money and Cambridge k. (6×3=18)

2. (i) What is outcome of an contractionary monetary policy when the exchange rates are fixed and there is imperfect capital mobility? (6)

(ii) How does an decrease in interest sensitivity of demand for money affect the LM curve? How does it affect the effectiveness of fiscal policy? (6)

(iii) Why are goods and services included in GDP at the market values? Are there any disadvantages in using market values to measure production? Discuss briefly. (6)

3. (a) Explain the trade-off between inflation and unemployment. What are the policy implications of a downward sloping Phillip's curve? (12)

(b) An economy is characterised by the following equation :

C (Consumption) = 40 + 0.8Yd

I (Investment) = 50

G (Government spending) = 100

T (Tax) = 60

X (Exports) = 110

M (Imports) = 8 + 0.07Y

(a) What is the equilibrium income?

(b) Calculate trade balance.

(c) What is the value of foreign trade multiplier? (2×3=6)

4. (a) Consider an economy with the following specification :

Consumption Function, C = 100 + 0.75Yd

Investment, I = 200 − 50i

Government Spending, G = 300

Tax, T = 200

Demand for money, Md = 0.10Y − 12.5i

Supply of money, Ms – 200

(i) Derive the equations for goods market and money market equilibrium.

(ii) Compute the equilibrium interest rate and income of the economy.