6. Using aggregate demand and aggregate supply curves, illustrate the effects of the following events on the price level and on equilibrium GDP in the long run assuming that input prices fully adjust to output prices after some time lag :

   (a) An increase in the money supply above potential GDP.

   (b) A decrease in the government spending and in the money supply with GDP above potential GDP. (9+9)

7. (a) What do you understand by the terms: frictional unemployment, structural unemployment, cyclical unemployment and full employment ?

   (b) Explain cost-push inflation and demand-pull inflation. (9+9)

8. Explain different components of a Balance of Payments (BOP) account. What do you understand by BOP surplus and deficit? Do you agree that a BOP deficit is always bad for a country? Explain your answer. (10+4+4)

[This question paper contains 4 printed pages.]

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

Sr. No. of Question Paper : 3473 **J**

Unique Paper Code : 6132341203

Name of the Paper : Macroeconomics

Name of the Course : **B.A. (VS) Human Resource Management DSC**

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 any **FIVE** questions.
3. Part of the questions to be attempted together.
4. **All** questions carry equal marks.
5. Use of Calculator not allowed.

1. (a) Does calculating GDP by the expenditure approach yields the same results as calculating GDP by the income approach? Elaborate.

   (b) Explain what double counting is and discuss why GDP is not equal to total sales. (10+8)

2. You are given the following data for a country :
   Consumption function : $C = 200 + 0.8Y$
   Investment function : $I = 100$
   $AE\ C + I$
   $AE = Y$

   (a) Explain the concept of marginal propensity to consume and marginal propensity to save?

   (b) Solve for equilibrium income and consumption at equilibrium level of income.

   (c) Suppose Investment changes to 110. What is the new equilibrium level of income? By how much does the 10 unit increase in planned investment change equilibrium income? What is the value of the multiplier? (3+5+10)

3. Suppose that the government has a fixed government expenditures of $G = 150$ and fixed taxes of $T = 200$. Assume following consumption function : $C = 150 + 0.75\ (Y - T)$.

   Suppose further that investment spending is fixed at 100.

   (a) Solve for equilibriumlevels of Y, C, and S.

   (b) Assuming that government reduces taxes by 20 to a new fixed level of 180. Recalculate the equilibrium of Y, C, and S after the tax cut. (9+9)

4. Derive IS and LM curve diagrammatically. Explain how goods market and money market together restore equilibrium in the economy. (18)

5. Illustrate each of the following situations and its impact on equilibrium income with IS-LM curves :

   (a) An increase in Government spendings with the money supply held constant.

   (b) A simultaneous increase in Government spendings and money supply.

   (c) An increase in Government spendings by Rs. 1000 and an increase in Taxes by Rs. 1000.

   (d) An increase in autonomous investment and decrease in Government spendings by same amount. (3+5+5+5)