6. (a) Differentiate between the monetary and asset market approach to the Balance of payment adjustment. (10)

(b) What is the J curve? When does an economy's trade balance may follow J curve behaviour? What are the assumptions which are taken to explain the trade balance behaviour? (8)

[This question paper contains 4 printed pages.]

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

Sr. No. of Question Paper : 6005 J

Unique Paper Code : 2922102401

Name of the Paper : Macroeconomics II

Name of the Course : **B.A. (Hons.) Business Economics**

Semester : IV

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. All parts of each question must be done together.

3. Attempt **FIVE** questions in all.

4. **Question No. 1** is compulsory.

1. State whether true or false. Give reasons/diagram in support of your answer. Any three (3×6)

   (a) According to Absolute Income Hypothesis, J M Keynes proposes a positive correlation between current income and consumption.

   (b) Inflation adaptive Phillips curve does not consider expected inflation as an important determinant of current inflation.

   (c) Milton Friedman consumption model hypothesize that consumption deviation occurs due to transitory income.

   (d) Neo classical model of Business Fixed Investment does not consider rate of depreciation and inflation as a determinant of investment.

   (e) The aggregate demand function states positive relationship between price level and level of income or output.

2. The inter temporal choice consumption model optimization is based on equity of the slope of inter

temporal budget constraint and time indifference curve. Explain. How do we know a borrowing constraint is binding or non-binding? (10+8)

3. How is natural rate of unemployment determined in wage setting and price setting framework? Support your answer with suitable diagram. (18)

4. (a) The consistency of positive inflation rate during 1970s period made significant change in relationship between inflation and unemployment. Discuss. (10)

   (b) An increase in firm's profit margin and provisions of unemployment allowances change the equilibrium conditions of labor market as well as natural rate of unemployment. Describe. (8)

5. (a) Derive the Aggregate Supply equation and Aggregate Demand equation and plot it on the diagram. (10)

   (b) Discuss the concept of purchasing power parity. (8)