[This question paper contains 2 printed pages.]

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

Sr. No. of Question Paper : 6493 **J**

Unique Paper Code : 2922071202

Name of the Paper : MACROECONOMICS

Name of the Course : **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. **All** parts of each question must be done together.
3. Attempt **FIVE** questions in all.
4. Question No. **1** is compulsory.

1. Answer any **three** of the following :

   (a) If realized investment falls above or below planned investment, it has consequences for equilibrium level of output. True or false. Explain

   (b) What is the effect of an increase in interest sensitivity of investment on the slope of IS curve? How does it impact the efficacy of monetary policy?

   (c) Differentiate between real and nominal GDP.

   (d) There will be no change in equilibrium national income, if government increases its expenditure by 200 crores and also increases taxes by the same amount . True or false. Explain

   (e) Should the producers hire more labour or less labour if the current wage rate is Rs. 200/-, price of output is Rs. 30/- and the last worker employed adds 100 units to output? Give reasons for your answers. (6×3=18)

2. (a) If in an economy people are willing to hold any amount of idle cash at the prevailing rate of interest, then changes in money supply have no impact on output. Explain with the help of diagrams. (10)

   (b) In an economy, marginal propensity to consume is 0.75. If there are no taxes in the economy, what is the change in national income and induced savings if government expenditure increases by Rs. 1000/-? How will your answer change if a tax at the rate of 20% is levied on households? (8)

P.T.O.

3. (a) What is a BP curve? Why is it upward sloping? What will be the effect of following on India's BP curve

   (i) Increase in marginal propensity to import in India

   (ii) Government of India sets up export facilitation centers to provide support to exporters (10)

   (b) Explain how the trade-off between unemployment and inflation works in the long run. (8)

4. (a) Explain using diagrams, why under fixed exchange rate system, monetary policy is not effective in the presence of perfect capital mobility? (8)

   (b) An economy is described by the following :

Consumption function:	$C = 200 + 0.8Yd$
Investment Function:	$I = 150 - 10r$
Government expenditure	$G = 250$
Tax	$T = 200$
Demand for money	$Md = 0.5Y - 20r$
Money Supply	$Ms = 250$

   (i) Find the equilibrium output (Y) and interest rate (r)

   (ii) What is the extent of crowding out if government expenditure doubles? (5,5)

5. (a) Explain the process by which a new investment brings about a multiple increase in income? (8)

   (b) What is the impact of a reduction in lump sum taxes, in an economy that is operating at full employment level of output? Explain with diagrams. (10)

6. Write short notes on any **three** of the following :

   (a) Merits of flexible exchange rate system

   (b) Feedback effect under expansionary monetary policy

   (c) Value added method of calculating national income

   (d) Cost push inflation (6×3=18)

(2000)