(ii) Find the equilibrium income (Y) *and interest rate (r).*

(iii) The government increases both G and T by 50. Calculate the new equilibrium income and interest rate. (2,4,4)

(b) What is a BP curve and why is it upward sloping? What will be the effect of increase in tariffs on the BP curve? Give reasons for your answer. (8)

5. (a) In an open economy with a fixed exchange rate regime, the effectiveness of expansionary monetary policy depends on the degree of capital mobility." Discuss with the help of diagrams. (9)

(b) Unemployment can be pushed below the natural rate of unemployment in the short run but not in the long run" Discuss using diagrams. (9)

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

(i) Merits of flexible exchange rate system.

(ii) Quantity theory of money.

(iii) Demand and supply side factors of inflation.

(iv) Kautilya's notion of wealth.

(v) Liquidity trap. (6×3)

(500)

[This question paper contains 4 printed pages.]

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

Sr. No. of Question Paper : 5150 **K**

Unique Paper Code	:	2922062302
Name of the Paper	:	MACROECONOMICS
Name of the Course	:	**BMS**
Semester	:	III

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) An increase in marginal propensity to save will dampen the effect of an increase in exports on national income. True or false. Explain.

(b) Why is the IS curve steeper when investment is interest inelastic?

(c) An increase in government spending combined with an equal increase in taxes keeps the national income unchanged True or false. Explain.

(d) Capital inflows into India increased when interest rates were low in USA. How will this affect the exchange rate of dollars in India?

(e) How does an increase in value of investment multiplier impact the crowding out effect? (6x3)

2. (a) "In the classical model of the economy, an increase in government spending leads to a complete crowding out of private investment, and therefore has no effect on output and employment" Explain with the help of a diagrams. (9)

(b) In an economy

Consumption $C = 300 + 0.75\,Y$

Investment $I=100$

Government Spending $G=90$

Tax $T=30+0.1\,Y$

Export $X= 50$

Import $M=30 +0.1\,Y$

(i) Calculate equilibrium income

(ii) Calculate trade surplus / deficit

(iii) What is the value of foreign trade multiplier? (3,3,3)

3. (a) Japan has experienced near-zero interest rates for a prolonged period since the 1990s. Using the IS-LM framework, explain why monetary policy may become ineffective in a liquidity trap. Illustrate your answer with a diagram. (9)

(b) Expectation about future interest rate changes determine the demand for money and hence the rate of interest prevailing in an economy. Discuss with help of diagrams. (9)

4. Consider an economy with the following parameters :

Consumption : $C = 200 + 0.8\,(Y - T)$

Investment : $I = 150 - 10r$

Government spending: $G = 250$

Taxes : $T = 200$

Money demand : $L(Y,r) = 0.25Y - 10r$

Money supply : $M = 500$

(i) Derive the IS and LM curves.