This question paper contains 3 printed pages]

Roll No. | | | | | | | | | | | |

S. No. of Question Paper : **1114**

Unique Paper Code : **2922101201**

Name of the Paper : **Macroeconomics I**

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

Semester : **II**

Duration : **3 Hours** Maximum Marks : **90**

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

All parts of each question must be done together.

Attempt *five* questions in all.

Question No. **1** is compulsory.

1. Attempt any *three* of the following :

   (*a*) Discuss how equilibrium in assets market can be explained through money market.

   (*b*) The demand for money is positively related to output and negatively related to rate of interest. Explain.

   (*c*) Higher interest rate sensitive investment is resulted in flatter IS curve. Explain with a suitable diagram.

   (*d*) Explain the concept of GDP deflator. 6×3=18

P.T.O.

2. Assume the following two sector model where :

$C = 100 + 0.80Y$,

$I = 150 - 6i$,

$L = 0.20y - 4i$ and

$M = 150$

(i) Find an equation for equilibrium in goods market (IS) and for the money market (LM).

(ii) Find output and the rate of interest at which there is simultaneous equilibrium in the money and goods market.

(iii) Plot the IS and LM equations and find equilibrium output and the rate of interest 6×3=18

3. (a) Derive the IS curve. What are the key factors that cause the IS curve to shift ? 8

(b) The effectiveness of fiscal policy depends on the position and slope of the LM curve. Discuss. 10

4. (a) Explain Loanable fund theory of interest rate with a suitable diagram. Write in brief the sources and demand for loanable funds. 9

(b) Critically explain Quantity Theory of Money. What are its limitations ? 9

5. Describe the process of multiple credit creation by commercial banks. What are the limitations to the power of banks to create credit ? 18

6. (*i*) Discuss the natural rate theory of unemployment and its implications for inflation. How does this theory relate to the concept of the long-run Phillips curve ? 12

   (*ii*) Elucidate the Keynesian interpretation of Phillips curve. 6