5. (a) "In an open economy with fixed exchange rates, the effect of an expansionary fiscal policy action depends on the slope of BP curve." Explain with the help of diagrams. (8)

(b) At the end of the inflationary decade of the 1970s, the Federal Reserve (the central bank of USA) is widely perceived to have moved to a much more restrictive monetary policy. How would you use the Phillips curve framework (both short run and long run) to analyse the effects of this policy shift on inflation and unemployment? (7)

6. Write short notes on any **three** :

(a) Advantages and disadvantages of flexible exchange rate system

(b) Instruments of monetary control

(c) Liquidity Trap

(d) Real GDP and GDP deflator (5×3=15)

5/12/18 (Morning)

[This question paper contains 4 printed pages.]

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

Sr. No. of Question Paper	:	**1916**
Unique Paper Code	:	61011304
Name of the Paper	:	Macroeconomics
Name of the Course	:	**Bachelor of Management Studies (BMS), 2018 (CBCS)**
Semester	:	III
Duration	:	3 Hours
Maximum Marks	:	75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Question No. **1** is compulsory. Attempt any **4** questions out of **Q.2** to **Q.6**.
3. **All** questions carry equal marks.

1. (a) The effect of negative aggregate supply shocks will be greater under the classical system than under the Keynesian assumptions. True or False? Why?

(b) Suppose Government expenditure increases by Rs. 100 crores, find the estimated increase in output if Marginal Propensity to Save =0.1.

(c) What are likely to be the factors responsible for recent depreciation of the Rupee.

(d) Let Money Supply be equal to 400 units. The requirement of transactions demand is 40% of Income level. For an Income of 500 units what would be the equilibrium price level as per the Cambridge approach to the Quantity Theory of Money.

(e) Which policy, Monetary or Fiscal would be appropriate as a Classical solution to a recessionary economy. (3×5=15)

2. (a) Using the Classical model examine the effects of the discovery of a new technology that increases productivity on employment, output, wages and price level. Use graphs to illustrate. (8)

(b) Explain Keynes theory of how expectations affect investment demand. How is this theory related to Keynes view that aggregate demand would be unstable in the absence of government stabilization policies? (7)

3. (a) A sudden rise in imports of electronic items has consequences for aggregate demand. Explain how under the Keynesian demand system. If autonomous savings rise by 10 units and autonomous imports rise by 15 units, what will be the effect on equilibrium level of aggregate demand? Assume marginal propensity to save = 0.3 and marginal propensity to import = 0.2. (8)

(b) When realized investment expenditure falls above or below planned investments, it has consequences for equilibrium level of aggregate output. Show graphically and mathematically. (7)

4. (a) Expansionary Monetary Policy of the government has a larger impact on output when the interest elasticity of investment demand is high. Explain Using IS-LM curves. Also demonstrate the impact when elasticity of investment demand with respect to interest rates is low. (8)

(b) Within variable price-fixed money wage version of the Keynesian model analyse the effects of increase in money demand (shift in liquidity preference) due to a loss of confidence in risky stocks and bonds such as occurred in 2007-09 financial crisis. (7)