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[This question paper contains 5 printed pages.]

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

Sr. No. of Question Paper : 4254

Unique Paper Code	:	61011304
Name of the Paper	:	Macroeconomics
Name of the Course	:	**Bachelor of Management Studies (BMS), 2019 (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. Answer **all** questions
3. **All** questions carry equal marks.

1. (a) In order to increase voter support the government of an economy decides to reduce the taxes by Rs. 5 lakhs. Simultaneously, it also reduces it's expenditure on infrastructure by the same amount. What is the effect of these changes on national income of the economy?

P.T.O.

(b) What is the marginal propensity to save in an economy where lump sum tax multiplier is 2?

(c) As income rises the supply of bonds increases. What is the effect of the increased income on rate of interest, if money supply remains unchanged?

(d) The imports of a country are affected by the efficacy of marketing undertaken by foreign firms. What is the effect of aggressive marketing by foreign firms on a country's BP curve?

(e) The savings in an economy are Rs. 50 crores and investment is Rs. 40 crores. What changes will take place in the commodity market? (3×5)

2. (a) "In the classical model, the quantity of money determines the price level and does not affect the real variables in the system such as output and employment." Explain with diagrams. (7)

(b) A high responsiveness of speculative demand for money to interest rates reduces the effectiveness of an expansionary monetary policy. Explain using the IS & LM framework. (8)

(b) "In an open economy with fixed exchange rate, the degree of capital mobility affects the outcome of contractionary monetary policy." Explain with diagrams. (8)

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

(a) Value added method of calculating national income

(b) H theory of money supply

(c) Advantages and disadvantages of fixed exchange rate system

(d) Wage price spiral

(e) Balance budget multiplier (5×3)

OR

In an economy :

Autonomous consumption	= 100
Marginal propensity to save	= 0.3
Investment (I)	= 105 – 10r (r=rate of interest)
Government expenditure (G)	= 60
Tax (T)	= 50
Money supply (M^s)	= 1750
Money demand (M^d)	= 10 + 3Y – 12r (Y=Income)

(i) What is the equilibrium level of income and rate of interest?

(ii) What happens when Government spending increases by Rs. 112? (4,4)

3. (a) Why is the IS curve downward sloping? How would the following affect the IS curve?

(i) Introduction of new technology that improves the productivity capital.

(ii) Increase in the desire to save by households. (8)

(b) What is the liquidity trap? What are it's policy implications? Explain using diagrams. (7)

OR

Given that :

Consumption : C $= 32 + 0.6Y_d$

(where Y_d is disposable income)

Investment : I $= 30$

Tax : T $= 10$

Imports : Z $= 10+0.2Y$

Find

(i) Equilibrium level of income.

(ii) How does the income change if taxes are reduced to zero?

(iii) What is the change in foreign trade multiplier i. marginal propensity to import changes to 0.3.

(2,2,3)

4. (a) Using the equilibrium conditions of the labour market and the Phillips curve, show how unemployment can be pushed below the natural rate of unemployment in the short run. (7)