OBE: OPEN BOOK EXAMINATION

[This question paper contains 2 printed pages.]

Your Roll No: …………………..

Sr. No. of Question paper	:	XXXX
Unique Paper Code	:	61011304
Name of the Paper	:	**Macroeconomics**
Name of the Course	:	**Bachelor of Management Studies**
Semester	:	**III**
Duration	:	**3 Hours**
Maximum Marks	:	**75**

Instructions for candidates:

1. This paper contains 6 questions. Attempt **ANY FOUR** questions.
2. All questions carry equal marks.

Q 1. "The volume of output and employment in the classical system are determined by only supply side of the market. Changes on the demand side such as increase in government spending only change the composition of output and not the level of output". Discuss by comparing the impact of increase in supply of labour and increase in government spending on output in an economy that is operating at full employment level of output.

Q2. Two countries "A" and "B" have identical commodity and money markets. Country A is an open economy but country B does not have any transactions with the rest of the world. The governments of both countries increase their spending by the same amount. Will the impact of increase in government expenditure be the same in both countries? If not, why? Explain the process by which the change in government spending affects the equilibrium income of both countries

Q3. **Consider the following economy :**

$C = 120 + 0.5Y_d$

$I = 100 – 10\,i$

$T = 40$

$G = 50$

$M^d = Y – 20\,i$

$M^s = 300$

(i) Find the equation of IS and LM curve.

(ii) Find the equilibrium income and rate of interest

(iii) What is the effect of a change in government spending from 50 to 100.

(iv) What is the effect of a change in money supply from 300 to 400.

Q4 Explain the impact of increase in money supply on equilibrium income and interest rate in an economy that is operating below the full employment level of output. What are the factors that make the monetary policy ineffective in certain circumstances?

Q5 Explain high powered theory of money supply and derive the money multiplier. What is the effect of change in reserve requirement by the central government? Expansionary monetary policy can only temporarily move the unemployment rate below the natural rate. Discuss

Q6. Comment on the identity between net exports and net foreign investment in case of small open economy. Explain the shape of BP curve under perfect capital mobility and imperfect capital mobility. What will happen when expansionary fiscal policy is used at home, when there is imperfect capital mobility and exchange rates are flexible?