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.

Q1. Classical economists believe that freely flexible prices and money wages keep changes in aggregate demand from affecting output. How will an increase in aggregate demand affect prices, wages and rate of interest. Explain with diagrams Will increase in supply of labour have the same impact ?

Q2. "The more open the economy, the smaller is the response of income to aggregate demand shocks such as changes government spending or autonomous changes in investment demand." Do you agree ? Give reasons for your answer. Describe the process by which changes in government spending impact income in an open economy.

Q3. C = 100 + 0.8Yd
I = 50-25r
G = T = 50
Ms = 350
Md = Y – 100r

(i) Find the equation of IS and LM curve
(ii) Find the equilibrium and rate of interest
(iii) What is the effect of change in Government spending from 50 to 100.
(iv) What is the effect of change in Money supply from 350 to 280.

Q4. Explain the relationship between interest sensitivity of investment and effectiveness of monetary and fiscal policy. Why is fiscal policy ineffective in certain circumstances?

Q5. What is the meaning of liquidity in an economy? How can it be measured ? If an economy has excess liquidity then how Aggregate Demand and Supply curve changes its position? What is Non accelerating inflation rate of unemployment (NAIRU)? What controls and policy measures can be implemented in order to restore the equilibrium in the economy?

Q6. What does the Balance of Payment (BP) Curve depict? Discuss the properties of BP curve? Explain the effect of an expansionary monetary policy under fixed exchange rate and imperfect capital mobility.