(b) The saving function of an economy is $S = -200 + 0.25Y$. The economy is in equilibrium when income is equal to 2000. Calculate the following :

(i) Investment expenditure at equilibrium level of income

(ii) Autonomous consumption

(iii) Investment multiplier (6)

5. (i) The impact of an expansionary monetary policy depends on the interest sensitivity of investment. Discuss with help of diagrams. (10)

(ii) Explain the demand-side and supply-side factors that contribute to inflation. (8)

6. What do you understand by imperfect capital mobility? Explain the following with reference to fixed exchange rate and imperfect capital mobility :

(i) Expansionary monetary policy under.

(ii) Expansionary fiscal policy in case, where BP schedule is steeper than the LM schedule. (18)

[This question paper contains 4 printed pages.]

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

Sr. No. of Question Paper : 1714 **I**

Unique Paper Code : 2922062302

Name of the Paper : Macroeconomics

Name of the Course : **BMS**

Semester : III

Duration : 3 Hours Maximum Marks : 90

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. All parts of each question must be done together.
3. Attempt **FIVE** questions in all.
4. Question No. **1** is compulsory.

1. Attempt any **THREE** of the following :

(i) Critically evaluate Kautilya's views on state intervention in the economy.

(ii) "The demand schedule for foreign exchange slopes downward because the demand for foreign currency to finance imports decreases as the exchange rate increases." True or false. Provide a suitable diagram to support your answer.

(iii) Does expansionary monetary policy reduce the unemployment rate in the short run, although at the expense of a higher inflation rate? Explain this relationship using the Phillips curve.

(iv) "An increase in government spending shifts the IS curve to the left." True or false. Explain your answer with an appropriate diagram. (18)

2. (a) Explain the aggregate demand and aggregate supply side effects of a reduction in marginal income tax rates on output, employment and price level in the classical model. (11)

(b) Use Fisher equation of exchange to explain the effect of change in money supply on price level in the classical model. (7)

3. (a) Derive LM schedule algebraically and graphically. (6)

(b) Assume the following model of the economy

$C = 0.8(Y - T)$

$I = 800 - 20r$

$T = 1,000$

$G = 1,000$

$M^d = 0.4Y - 40r$

$M^s = 1200$

(i) Compute equilibrium output and rate of interest (6)

(ii) Assume that M^s (nominal money supply) increases by 200. By how much will Y increase in short-run equilibrium? (6)

4. (a) Suppose the government increases the expenditure. Use the IS-LM model to show the impact of the increase in government expenditure under two assumptions:

(i) The government keeps interest rate constant through an accommodating monetary policy.

(ii) The money supply remains unchanged. (12)