Total number of printed pages–3

2022

ECONOMICS

Paper : ECO–1026

(Elements of Macroeconomics)

Full Marks : 80

Time : Three hours

The figures in the margin indicate full marks for the questions.

1. Answer the following : (each within **50** words)
    5×4=20

    (a) Explain how in Keynes' theory, speculation about the rate of interest influences allocation of asset portfolio between money and bonds.

    (b) How does the balance of payments account remain in balance, even when a country has a surplus, in its balance of payments ?

(c) Why in the Mundell-Fleming model is the BP curve horizontal at the global rate of interest.

(d) Why, according to Robert Hall, consumption follows a random walk ?

2. Answer **any three** of the following : (each within **150** words)   10×3=30

(a) What is Tobin's Q ? How do fluctuations in stock prices predict economic activity ?   4+6=10

(b) What are the determinants of cost of capital ? How does cost of capital influence investment decisions ?   6+4=10

(c) Explain why fiscal policy is likely to be ineffective in a small country with perfect capital mobility and flexible exchange rate.

(d) Explain why, according to the classical economists, the economy will maintain full employment of prices (including wages) are flexible. Why, according to Keynes, price flexibility may not be enough to maintain full employment ?
                    5+5=10

(e) What information is supplied by the BP curve in the open economy IS-LM model? Show that ordinarily the BP curve will be positively stopped. Also show that higher the capital mobility flatter is the BP curve.   2+4+4=10

3. Answer **any two** of the following : 15×2=30

(a) Explain how, capturising the circular flow of income at three different points, we can estimate domestic income in three alternative ways. Describe the compoments of the domestic income as—

(i) production total, and

(ii) income total.   7+4+4=15

(b) What is the consumption puzzle? How does the permanent income hypothesis solve the consumption puzzle?   5+10=15

(c) What does the IS curve show and how is it affected by an expansion of government expenditure? What does the LM curve show and how is it affected by monetary expansion in the economy? Show that for best results in a recessionary situation fiscal expansion should be supported by monetary expansion.   5+5+5=15

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