Total number of printed pages–4

14 (ECO–1) 1026

2023

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) Define full employment. Explain why the classical labour market equilibrium is indeed full employment equilibrium. 2+3=5

   (b) Why is monetary policy independence not compatible with fixed exchange rate under perfect capital mobility?

Contd.

(c) Why, according to Robert Hall, does consumption follow a random walk?

(d) State *any two* motives of firms to hold inventories of goods.

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

(a) Explain Keynes' income determination process and then derive the IS curve for a closed economy. Show how derivation of the IS curve becomes more complicated for an open economy. 7+3=10

(b) Show how, by introducing price level flexibility in the IS–LM model, one can derive the aggregate demand curve. How can this aggregate demand be different from a demand curve in microeconomics? 7+3=10

(c) How do the entries to the capital account of the Balance of Payment (BoP) differ from those in the current account? How, in the accounting sense, is the BoP always in balance even if economically it is in surplus or deficit? 3+7=10

(d) How does Relative Income Hypothesis explain the proportional relation between consumption and income in the long run?

(e) Using the neoclassical model, examine the costs and benefits of business fixed investment.

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

(a) Illustrate how interaction between multiplier and accelerator explains the cyclical fluctuations in economic activity.

(b) State Hicks' definition of income. Apply the notion to explain why NDP, rather than GDP, measures domestic income. Narrate the steps involved in obtaining domestic income from production data of different production units of the country. 2+4+9=15

(c) Explain why speculative demand for money varies inversely with the rate of interest. Using the IS–LM framework illustrate the effect of monetary expansion in a closed economy. Show that the same monetary expansion will be more effective in an open economy with perfect capital mobility and flexible exchange rate. 5+5+5=15