

2019

ECONOMICS — HONOURS**Paper : CC - 3****Full Marks : 65***The figures in the margin indicate full marks.**Candidates are required to give their answers in their own words as far as practicable.***SECTION - A****1. Answer *any ten* questions :****2×10**

- (a) What will be the impact on GDP if a consumer decides to buy a refrigerator made in South Korea rather than one made in India?
- (b) Explain why Balanced Budget Multiplier is unity.
- (c) What is meant by 'liquidity trap'?
- (d) What is the full-employment budget surplus?
- (e) State whether the following statement is true or false and give reasons for your answer :

"For a country where GNP exceeds GDP, we find that the residents of that country are earning less abroad than the foreigners are earning in that country."

- (f) In the following hypothetical economy :

GDP	₹ 7,000
Gross Investment	₹ 800
Net Investment	₹ 550
Consumption	₹ 4,500
Government purchase of goods	₹ 1,100
Budget surplus	₹ 30

Find disposable income.

- (g) What is GDP deflator?
- (h) What components of GDP (if any) would each of the following transactions affect? Explain.
 - (i) The Central Government of India repaves NH31.
 - (ii) Your parents buy a car from Volkswagon, a German company.

- (i) Why is imputed rental income of owner occupied housing included in GDP and not the market value of the house itself?
- (j) Differentiate between stock variables and flow variables citing examples.
- (k) State and explain what will happen if $MPC > 1$ in SKM.
- (l) Suppose the economy is operating at equilibrium with $y_0 = 1000$. If the government undertakes a fiscal change so that the tax rate 't' increases by 0.05 and government spending increases by 50, will the budget surplus increase or decrease? Why?
- (m) What effect does an increase in money supply produce in the classical model?
- (n) What is the difference between MEC and MEI?
- (o) What will be the impact on rental price of capital, cost of capital and investment if anti-inflationary monetary policy raises the interest rate?

SECTION - B

2. Answer *any three* questions :

- (a) Why do we call mechanisms such as proportional income taxes "automatic stabilizer"? Explain how and why it affects fluctuations in output. 2+3
- (b) When the present value of future return stream (discounted at the market rate of interest) of a certain investment project is just equal to the present cost, how is the "marginal efficiency of capital" related to the rate of interest? Explain. 5
- (c) Explain saving-investment gap and its relation with budget deficit. 5
- (d) Explain paradox of thrift. 5
- (e) Is Say's law consistent with Quantity Theory of Money? Explain with arguments. 5

SECTION - C

Answer *any three* questions.

3. Suppose we have an economy described by the following equations :

$$C = 100 + 5 Y_d$$

$$I = 50 + 0.1 Y$$

$$G = 100$$

$$T = 0.2 Y$$

where C = Consumption, Y_d = Disposable Income, I = Investment, G = Government Expenditure, T = Tax, Y = National Income.

Find out equilibrium values of Y, I, C and government budget deficit. How will an increase in the tax rate from 0.2 to 0.3 affect aggregate domestic savings? Can you call this result 'Paradox of thrift'?

6+3+1

4. Explain the impact of real interest rate on housing demand, housing price and residential investment. 2+2+6

5. Suppose there are two groups of people in an economy, with their respective consumption function as

$$C_A = 100 + 0.5 Y_A$$

$$C_B = 150 + 0.75 Y_B$$

Planned investment 200. Where C_i and Y_i are respectively consumption and income levels for the i th group (for all $i = A, B$). Suppose each group gets 50% of total GDP in the economy. Determine the equilibrium level of income. Considering the equilibrium income as the initial income, a lumpsum tax T is imposed on Group A and the same amount is given as a transfer to Group B. Now determine planned consumption, planned savings, planned aggregate demand and actual investment at the initial level of equilibrium. 2+2+2+2+2

6. (a) Consider the police force of a country. Its job is to maintain law and order of the country. Suppose that in a given year it spent ₹ 10 lakh interest on its outstanding loan, ₹ 20 lakh in wages and salaries, ₹ 10 lakh on stationery, fuel, power and acquired buildings, equipment and cars worth ₹ 30 crore. What is its GVA in a given year? Did it contribute anything to G and transfer payments of government administration and defence? Explain.
- (b) Suppose that in a given year in a closed economy with government, private and public sector enterprises produced goods and services worth ₹ 10 lakhs i.e., their aggregate GVA in the given year was ₹ 10 lakhs. They sold in the same year goods and services of ₹ 8 lakhs to households and ₹ 5 lakhs to government administration and defence. Besides, government administration and defence paid ₹ 10 lakhs in wages and salaries and ₹ 1 lakh in interest to households. What is the aggregate gross investment of the firms in the given year? Calculate GDP of the economy by the expenditure method. (2+3) +(2+3)
7. (a) Explain the impact of
- shift in the supply schedule of labour
 - shift of the production function upwards on the equilibrium values in the classical model.
- (b) How will the equilibrium values be affected if the wages are rigid? 6+4