

BACHELOR OF ARTS EXAMINATION, 2025

1st Year, 2nd Semester

DEPARTMENT OF ECONOMICS

Subject Code : Eco/B/C 2.1(OLD)

INTRODUCTORY MACROECONOMICS

Time : Two Hours

Full Marks : 30

Answer any three questions:

3×10=30

1. (a) How will the current GDP change in each case?
 - i) On January 1, A purchases 10 gallons of gasoline @ 1.40\$ per gallon. The gas station purchased the gasoline the previous week at a wholesale price of 1.30\$ per gallon.
 - ii) A homemaker enters the workforce taking a job that will pay 20,000\$ over the year. She must pay \$8000 over the year for professional child care services.
- (b) If velocity of money is constant, does zero inflation require that the rate of money growth be equal to zero? [2.5 + 2.5 + 5 = 10]
2. a) Suppose that initially exports are zero and imports are \$100 billion. Then assume that the Government places a ban on imports. Also assume that the spending habits of consumers, firms and government remain the same (i.e. they spend the same but substitute domestic goods for imports). What happens to GDP and each category of savings assuming taxes remain unchanged?
- b) What is frictional unemployment? Can it be reduced through government policies? [6+4 = 10]
3. Show the balance sheets of the central bank and the commercial banks to show how the money multiplier helps in credit creation. Explain in this context the factors affecting money supply. [7 + 3 = 10]
4. a) Money is a veil. Explain this statement in the light of the Classical theory.
- b) What are the costs of inflation? [5 + 5 = 10]
5. Derive the short run and long run aggregate supply curve using the sticky wage model. Explain the effect of an expansionary monetary policy on the economy using the same. [5 + 5 = 10]
