

**BACHELOR OF ARTS EXAMINATION, 2025****ECONOMICS****1st Year, 2nd Semester****Subject Code : ARTS/ECON/UG/MAJOR/TH/12/102****PRINCIPLES - II (MACROECONOMICS)****Time : Two Hours****Full Marks : 30****(You have to answer questions from all the COs)****CO1 : (Answer all questions)****5+5=10**

1. (a) Suppose Government borrows \$20 billion more next year than this year. What will happen to interest rate, investment, private savings, public savings and national savings? Explain your answer using a suitable diagram.

(b) A farmer grows a bushel of wheat and sells it to a miller for 1 dollar. The miller turns the wheat into flour and then sells the flour to a baker for 3 dollars. The baker uses the flour to make bread and sells the bread to an engineer for 6 dollars. The engineer eats the bread. What is the value added by each person?

**3+2=5**

2.

(in Rs. 100 billion)					
	At current prices	2009-10	2010-11	2011-12	2012-13
1.	Final consumption expenditure	448	525	617	696
1.1.	Government final consumption expenditure	77	89	103	119
1.2.	Private final consumption expenditure	371	436	514	577
2.	Gross fixed capital formation	206	241	286	307
3.	Change in stocks	18	27	17	17
4.	Valuables	12	16	25	27
5.	Exports of goods and services	130	171	215	243
5.1.	Export of goods	85	114	147	163
5.2.	Export of services	45	57	68	79
6.	Import of goods and services	165	205	272	311
6.1.	Import of goods	136	168	235	267
6.2.	Import of services	28	37	38	44
7.	Discrepancies	0	3	14	32
8.	Expenditure on gross domestic product	A	B	C	D

		(in Rs. 100 billion)			
At constant 2004-05 Prices		2009-10	2010-11	2011-12	2012-13
1.	Final consumption expenditure	340	368	400	421
1.1.	Government final consumption expenditure	55	58	62	66
1.2.	Private final consumption expenditure	285	309	338	355
2.	Gross fixed capital formation	159	177	199	200
3.	Change in stocks	14	21	12	11
4.	Valuables	9	13	13	18
5.	Exports of goods and services	100	120	138	145
5.1.	Exports of goods	66	82	96	100
5.2.	Exports of services	34	38	42	45
6.	Import of goods and services	133	154	187	199
6.1.	Import of goods	112	127	163	174
6.2.	Import of services	21	27	23	25
7.	Discrepancies	-10	-15	-12	-6
8.	Expenditure on goods domestic product	479	X	Y	Z

Give the above data, estimate (a) growth rate during 2012-13, (b) GDP deflator during 2012-13, (c) current account deficit at current prices as proportion of GDP during 2012-13, (d) private consumption to GDP ratio at current prices during 2011-12 and (e) the inflation based on GDP deflator during 2012-13.

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**CO2 (Answer all questions)**

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3. Justify the following statements : 1 + 1 = 2
- (a) Inflation does not reduce the purchasing power of most workers.
- (b) If a can of soda costs \$0.75 in United States and 12 pesos in Mexico, then the peso-dollar exchange rate is 0.05 for purchasing power parity theory to hold.
4. (a) Why is frictional unemployment inevitable?
- (b) What do you mean by catch-up effect? 2 + 1 = 3

**CO3 (Answer any one question)**

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5. How does the money multiplier operate? What changes in the money multiplier will make money supply endogenous?
6. How is the price level determined in the Classical theory? Under this theory, what will happen to the macro economy if the government buys back bonds?

**CO4 (Answer all questions)**

10

7. (a) How can you justify the downward slope of the aggregate demand curve through the real balance effect?
- (b) How will the short run aggregate supply curve look like when (i) wage is fixed and (ii) when price is fixed? Explain your answer. 2 + 2 = 4
8. Suppose there has been a severe drought for which agriculture has been severely affected. How will this affect the macro economy? Explain in this context the role of government policy to mitigate the adverse situation. 3 + 3 = 6