

BACHELOR OF ARTS EXAMINATION, 2025**ECONOMICS****2nd Year, 2nd Semester****Subject Code : ECO/B/C 4.2 (OLD)****MACROECONOMICS BII****Time : Two Hours****Full Marks : 30****Answer any two questions from the following questions :**

1. (a) Compare and contrast how Life Cycle Hypothesis and Relative income hypothesis explains the short run variation in average propensity to consume. 5
- (b) Using Jorgenson's Neoclassical structure clearly show that investment can be sensitive to changes in the level of output. (You can use a Cobb-Douglas production function). 5
- (c) Suppose there is an increase in inflow of foreign exchange through an increase in volume of exports. Explain how the Central bank can manipulate repo rate and reverse repo rate to neutralize the effects. 5
2. (a) Clearly explain how the Keynesian theory of speculative demand for money was modified by Tobin's portfolio balance approach. 8
- (b) Explain the knife edge instability problem in Harrod-Domar growth model. 5
- (c) Define reserve money and broad money. How are they related to M_4 ? 2
3. (a) Derive the equilibrium condition in the Solow-Swan growth model. Show that the equilibrium will be a stable equilibrium. 7
- (b) Following Baumol's inventory approach, clearly explain what are the factors that affect transaction demand for money. 5
- (c) Consider the two following cash flows (Rs Lakhs):

	0	1	2	3	4
Project 1	-1200	4500	-350	2500	1500
Project 2	-1200	1500	-250	4500	6500

If the investor just has Rs 1200 lakhs to invest, which project will he choose following Net Present value rule?
