

2. a) Define risk-aversion used in economic theory. Discuss what strategy should risk-averse individuals follow when buying shares which have uncertain returns. 6
- b) In an economy, the cash-reserve ratio determined by the central bank is 10 percent, but the banks decide to keep an extra 10 percent as reserve as a matter of extra precaution. What will be the value of money multiplier of the banking system gets an extra deposit of Rs. 1000 (explain all the steps). 4
3. Using a three part diagram (with explanations about the derivations of each diagram), show that trade policies are ineffective in the macroeconomic sense in an open economy, although there may be microeconomic implications. 10
4. Trace the impact of a temporary setback in agricultural production (due to pest attack) in the economy. How does the impact affect the long-run output and price? Does government intervention make any difference to your analysis? 10

BACHELOR OF ARTS EXAMINATION, 2018

(1st Year, 1st Semester)

ECONOMICS (HONOURS)**PRINCIPLES OF ECONOMICS - II**

Time : Two hours

Full Marks : 30

Answer *Q 1* and *any two* from the rest.

All questions carry equal marks.

1. a) In an economy, in the current year, farmers produced Rs. 1000 worth of wheat. To produce this they used fertiliser worth Rs. 200. Finally, they could only sell Rs. 700 worth of goods to consumers. They also paid agricultural workers wages amounting to Rs. 200, paid Rs. 100 as sales taxes to the government and retained Rs. 200 for future production purposes. Calculate the farmers' contribution to the following measures :
- i) GDP (ii) National Income (iii) Personal Income
Use the expenditure and income methods of national income calculation to get your answers. 4
- b) Discuss the impact of the following on CPI and GDP deflator (explain your reasons clearly)
- i) A new variety of rice is sold in the market this year.
ii) Imported fertiliser price rose more rapidly.
iii) Sunflower cooking oil prices rose more rapidly than soyabean cooking oil prices. 3
- c) Explain the catch - up effect in the process of growth of countries. 3

[Turn over