Ex/UG/ECO/34/20/2018 (Old)

BACHELOR OF ARTS EXAMINATION, 2018

(2nd Year, 3rd Semester, Old)

ECONOMICS (HONOURS)

MACROECONOMICS - I

Time : Two hours Full Marks : 30

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

All questions carry equal marks.

1. a) In order to cut budget deficit in the economy, the goverment (i) reduces Transfer Payments (by cutting old age pensions) from 3% to 2% of GDP (ii) raises taxes (by increasing sales taxes) from 9% to 10% of GDP (iii) reduces government expenditure (by cutting all incentive schemes) from 22% to 20% of GDP. As a result, due to the cut in export incentives, the net exports declines from 6% to 5% of GDP. Other things remaining unchanges, find out the following :

   (A) Change in the private savings ratio to GDP.

   (B) Change in the budget deficit ratio to GDP.

   (C) Change in the Δ NFA ratio to GDP.

   (D) Change in the investment ratio to GDP.

   b) If overtime, both Laspeyers and Paasche price indices show inflation in the economy, then prove that Laspeyers index is more than Paasche index if the aggregate utility function in a 2-good economy is homogeneous of degree 1. 4+6

2. a) In a simple keynesian economy, let MPC = 0.5, autonomus expenditure = 2500 (all types combined) and tax rate = 0.2. Suppose the goverment increase expenditure by 600. This is done in the current period only. Find out, what percentage of multiplier value is realised after third period. 4

   b) To prove stability in the small in the IS-LM model, show the importance of the assumption of linearity in the functional relations embodied in the markets. Using this property, algebraically prove the stability condition. 2+4=6

3. Suppose in modified complete keynesian model, workers may have two alternative price expectations formula – i) $Pe = \frac{1}{2}P$ and ii) $Pe = \sqrt{P}$. What difference does it make for the two alternative formulations ? Explain in terms of AD and AS diagrams. Also, analyse whether unemployment equilibrium is posible in both the cases. 6+4=10

4. a) Do you agree that adaptive expectation plays a very important role to distinguish long run Phillips curve from the short - run? Explain.

   b) Derive the dynamic time path of the price using the adaptive expectations model used in the phillips curve analysis. 5+5
