

BACHELOR OF ARTS EXAMINATION, 2022

(1std Year, 2nd Semester)

ECONOMICS**INTRODUCTORY MACROECONOMICS****COURSE : CORE 3 : ECO B/C/2.1**

Time : Two hours

Full Marks : 30

10 question 1 and any two from the rest

10 x 3 = 30

1. State and justify whether the following statements are true, false or uncertain: 2.5 x 4 = 10
Do any 4.
- If gross domestic product were measured at the prices firms receive for the products they sell, then sales and excise taxes would not be subtracted from gross domestic product in computing national income.
 - The Quantity Theory of Money states that the Central Bank has ultimate control over the rate of inflation.
 - The short run aggregate supply curve will be horizontal if money wage is fixed.
 - If households believe that greater government borrowing today implies higher taxes to pay off the government debt in future, then supply of loanable funds will rise today.
 - If price rises, then aggregate demand should increase following the wealth effect.
2. A) You read in a newspaper that the nominal interest rate is 12% per year in Canada and 8% per year in the United States. Suppose that the real interest rates are equalized in the two countries and that purchasing power parity holds. What can you infer about expected inflation in Canada and in the United States? Also comment on the expected change in the exchange rate between the Canadian dollar and the U.S. dollar.
B) What is Solow Residual?
C) How can you explain the economic consequences of the pandemic in India using a simple AD-AS framework? 2 + 2 + 6 = 10
3. A) Suppose that Congress passes legislation making it more difficult for firms to fire workers. If this legislation reduces the rate of job separation without affecting the rate of job finding, how would the natural rate of unemployment change?
B) Suppose that in a given year U.S. foreign trade consists of some consumer importing a single Toyota Tercel for \$12000 (1.8 million yen). Here are some possible financial transactions to accompany the purchase: i) The consumer pays with \$12000, which Toyota puts in its American Bank account. ii) The consumer pays with 1.8 million Yen that happens to be in a Japanese bank account. iii) The consumer purchases 1.8 million Yen on the foreign exchange market from some anonymous American foreign exchange trader and then pays for the car. For each of the transactions described above, explain the effect the transaction has on US current account and capital account. Will there be a current account surplus or deficit?
C) How is repo rate different from bank rate? 2 + 6 + 2 = 10
4. A) In the sticky price model, how will the short run aggregate supply curve look like if i) no firms have flexible price and ii) the desired price does not depend on the aggregate output?
B) a) The following information is given in million Rs.
Gross private domestic investment = 52, Govt. purchases of goods and services = 40, Gross national product = 250, current account balance = -25, Taxes = 65, Government transfer payments to domestic private sector = 35, Interest payment from the government to the domestic private sector = 20, Factor income received from rest of world = 9, factor payments made to rest of the world = 11. Find a) Consumption, b) Net exports, c) GDP, d) Net factor payments from abroad, e) Private savings, f) Government savings, g) National Saving. 4 + 6 = 10