

**BACHELOR OF ARTS EXAMINATION, 2017**  
 (1<sup>st</sup> Year, 1<sup>st</sup> Semester)  
**ECONOMICS (HONOURS)**  
**PRINCIPLES OF ECONOMICS – II**

Time: Two hours

Full Marks: 30

Answer Q1 and *any two* from the rest. All questions carry equal marks

- 1.(a) In order to expand higher education in the nation, some suggest government must subsidise the higher education more, while some others prefer more privatization of higher education. Use two (2) principles for and two (2) principles against each of these two arguments stated above (Do not use the same principle for both for and against)
- (b) Suppose in the country Agraria, Rs 5000 worth of corn is produced out of which Rs 500 worth of manure fertilizers from fertilizer producers is used and Rs 200 is spent on repairing a pump. Agraria exported Rs 300 worth of corn to neighbouring country Fishmania for fish. Wages paid in corn production is Rs 1000 and that in fertilizer production is Rs 100. A tax of Rs 500 is paid out of total profit earned in the economy. Find out National Income by expenditure method and Income method (all definitions should be clearly written).
- (c) Using the definition of PPP, show that monetary policy may influence the exchange rate. 4+4+2
2. (a) Suppose the nation's GDP is produced with the help of a Cobb-Douglas production function, having constant returns to scale and three factors of production, human capital (H), capital (K) and natural resources (N). The exponents of H and K are 0.5 and 0.3 respectively. Suppose in a year, the growth rates of H, K and N are expected as 2%, 3% and 1% respectively. What should be the value of the Solow residual so that GDP grows by 5% (show all the necessary derivations)? If Solow residual in the previous year is 2%, suggest two (2) possible policies which might help the nation to achieve the target.
- (b) What is the random walk model of share pricing? What relation does it have with informationally efficient share market hypothesis.
- (c) Why does a lower repo rate (define it) may lead to rise in prices of goods and services in the economy (distinguish between the short run and long run in your answer). 4+2+4
3. (a) Explain why net exports should be identically equal to net capital outflow.
- (b) What determines the shape and sign of demand and supply curves of home currency in foreign exchange market? Explain
- (c) Suppose in Indian economy, in a year, savings behavior shows a decline, but the government attracts more foreign investment by announcing additional tax incentives for them. Using a three part diagram, can you describe a situation where real exchange rate depreciates for India? 2+2+6
4. (a) Identify which of the two curves namely AD and short run AS will shift and in which direction for the following events:
- (i) Investment sentiments in the economy get more favourable
- (ii) Credit rating agency downgrades economy's growth prospects
- (iii) Scientists discover rice seeds which can grow even under drought situations
- (iv) A massive earthquake destroys a large number of roads and bridges in a country
- (b) In recent periods, oil prices have significantly come down. Trace out the impact of that (i) in AD-AS diagram and (ii) in terms of Phillips curve, in both short and long run. Make sure the results in the two diagrams exactly tally. 4+3+3