BA First Year First Semester Examination, 2017
Economics (Honours)
Principles of Economics III

Full Marks: 30

Answer any two questions

1a. Explain why surplus value is necessary and sufficient for profit?
b. Suppose total amount of labour extracted from each worker is raised, while the number of employed workers is reduced in such a manner that the total amount of labour extracted from all the employed workers remains the same. Other factors remaining the same, how do surplus value and profit change? What kind of surplus value is generated in this case?
c. What happens to surplus value and profit following a technological innovation that reduces living labour requirement of production? What kind of surplus value is generated in this case? [7+4+4]

2. Suppose the GDP of a given economy in the given period is Y. The wage cost of producing Y is 0.5Y and B = 0. Suppose c_w = 1, c_c = 0.5, t = 0, G = 0 and I = 2000 – 100i, i_c= 8, m = 1 and m_d = 1. Write down the equation of the aggregate demand function, which gives the value of aggregate demand corresponding to every Y. Plot it in a diagram. Derive the equilibrium value of Y. Indicate the equilibrium value of Y in a diagram. Suppose the equilibrium Y is the fullemployment Y. Now, suppose the labour content of production goes down. As a result, wage cost of production of Y falls from 0.5Y to 0.25Y. What will happen to Y? What policy can the central bank adopt to restore fullemployment?[15]

3a. Why is the credit market explanation of the formation of the house price bubble untenable in the context of the US economy?
b.How could the speculators who were responsible for the doubling of the rate of house price inflation in 1998 and its sustenance at such high levels in the next three years be sure that the interest rate would go down in future?[7+8]