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its solution in a diagram. Explain the diagram carefully. Explain why the individual does not choose a value of the choice variable that differs from its optimum value. If the brokerage fee decreases, how will the optimum value of the choice variable change? Derive the result diagrammatically explaining every step. Explain using the diagram why the individual considers it profitable to move from the initial equilibrium to the new one. 15

Ex/ECO/B/C 4.2/2023

BACHELOR OF ARTS EXAMINATION, 2023

(2nd Year, 2nd Semester)

ECONOMICS

[MACROECONOMICS B II]

Time : Two Hours

Full Marks : 30

Answer any *two* from the following questions.

1. How will a given increase in the saving ratio, s , affect the steady state values of k and y in the Solow Model? Derive the results both diagrammatically and mathematically explaining every step. (Just use the relevant equation in answering this question. Do not develop the whole of Solow Model and do not explain notations). 15
2. If we incorporate wage rigidity in the basic neoclassical model (classical model), the labour market equilibrium condition changes to the following equation: $\bar{W} = P.F_L(L, \bar{K})$. Assuming P to be given, show the solution of this equation in a diagram. How will a given increase in P affect the equilibrium value of L ? Answer this question both diagrammatically and mathematically explaining every step. 15
3. Write down the first order condition for cost minimization of the Baumol's theory of transaction demand for money. (Do not derive the condition). Show

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