

BACHELOR OF ARTS EXAMINATION, 2019

(1st Year, 2nd Semester)

ECONOMICS (HONOURS)

INTRODUCTORY MACROECONOMICS

Time : Two hours

Full Marks : 30

Answer question **No. 1** and any **two** the rest.

Answer question number 1 and any two from the rest.

1. Justify whether the following statements are true, false or uncertain. 5 x 2 = 10
 - a. If households believe that greater government borrowing today implies higher taxes to pay off in future, then they will increase their present consumption.
 - b. If firms adjusted their prices everyday then the short run aggregate supply curve would be horizontal.
 - c. If Government hired unemployed workers who had been receiving amount \$TR in unemployment benefits, as government employees to do nothing and now paid them \$TR, then GDP would increase using all the three methods.
 - d. If more credit cards are easily available in the economy, then prices will rise through a rise in the money supply.
 - e. If U.S. inflation exceeds Japanese inflation, then U.S. dollar should depreciate given that U.S. and Japan are trading partners.
 - f. A stock market boom induces newly enriched 60 year old workers to take early retirements.

2. A) Suppose that initially exports are zero and imports are \$100 billion. Then assume that the government places a ban on imports. Also assume that the spending habits of consumers, firms and government remain the same (i.e. they spend the same but substitute domestic goods for imports). What happens to GDP and each category of savings assuming taxes remain unchanged?
B) Why does inflation hurt borrowers and help lenders?
C) Explain the different factors which affect stock prices. 4 + 2 + 4 = 10

3. A) Assume that American rice sells for \$100 per bushel and Japanese rice sells for 16000 yen per bushel and the nominal exchange rate is 80 yen per dollar. How could an arbitrageur make a profit from this situation? What would be his profit per bushel of rice?
B) Is consumer price index a better measure of inflation than GDP deflator? Explain.
C) Suppose in year 1 economic activities in a country constitute only production of wheat worth Rs. 750. Of this, wheat worth Rs. 150 is exported and the rest remains unsold. Suppose further that in year 2, no production takes place, but the unsold wheat of year 1 is sold domestically and residents of the country import shirts worth Rs. 250. Fill the following chart with adequate explanation.

[Turn over

Year	GDP	=	Consumption	+	Investment	+	Export	-	Import
1	_____	=	_____	+	_____	+	_____	-	_____
2	_____	=	_____	+	_____	+	_____	-	_____

3 + 3 + 4 = 10

4. A) What will happen to the macro economy if there is a sudden crash of the stock market?
 Explain using the AD-AS framework.
- B) Can frictional unemployment be reduced through government policies?
- C) What is the opportunity cost of investing in capital? 5 + 3 + 2 = 10

(HONOURS)