

**B.A. ECONOMICS SECOND YEAR THIRD SEMESTER 2019
INTERMEDIATE MACROECONOMICS I**

Time: 2 hours

Full Marks: 30

Answer any three questions
All questions carry equal marks

$10 \times 3 = 30$

1. a) The government in an economy initiates a balanced budget expansion for three consecutive periods such that every year government expenditure (G) is increased by dG and is matched by an increase in lump-sum tax (T) by dT . What will be the change in GDP (Y) after three periods in terms of general formula? What will be the value of Y in this case if $dG = 128$? What will be the final change in Y if an infinite number of periods are taken into account? $4+1 = 5$
 b) Suppose in an economy, there are two groups of people denoted as A and B, who has the following characteristics:
 Y_A and Y_B = Income of A and B respectively, such that $Y_A > Y_B$
 β_A and β_B = Propensity to consume (Keynesian type property)
 T_A = Tax on A and S_B = Subsidy to B, assuming $T_B = S_A = 0$
 ω_A and ω_B = Share of A and B in GDP (Y)
 F = Autonomous Consumption, I = Autonomous Investment and G = Government expenditure
 What will be the change in Y if government increases taxes by dT_A and distributes the same to B as additional subsidy, allowing thereby a change in share of the two groups in GDP by amounts $d\omega_A$ and $d\omega_B$ respectively? 5

2. a) Graphically explain why it leads to instability of equilibrium if slope of IS curve is greater than slope of LM
 b) The following data are given for an economy (all variables have their usual meaning):
 $C = 100 + 0.8Y + 600r$
 $I = 10 - 100r$
 $M/P_0 = 0.5Y - 5000r$
 $M = 50, P_0 = 1$
 What is the change in Y if M changes by 30 (use the multiplier formula to derive it)? Does the result look counter-intuitive? What may be the reason for this? $6+4 = 10$

3. In an open economy model, it is found that Balance of Payment (BP) equilibrium locus does not shift under any circumstances. Suppose now government adopts a policy which allows such a shift. In case capital inflow from abroad is relatively immobile, does this policy lead to larger effect for an increase in government expenditure? Explain diagrammatically. 10

4. In a complete Keynesian model, the following data are given (all variables have their usual meaning):
 Product Market equilibrium: $Y = 200 - 500r$
 Money Market equilibrium: $M/P = \frac{1}{2} Y - 250r$

$$M = 500$$

$$\text{Production function: } Y = N^{1/3}$$

$$\text{Money Wage Rate: } W = 20$$

Now the new product market equilibrium equation is given by: $Y = 200 - 250r$.

Show that (i) AD curve becomes less elastic and (ii) Expansionary fiscal policy becomes more effective in terms of government expenditure multiplier (Derive the necessary multiplier formula). 5 + 5 = 10

5. Derive the Short run Phillips Curve (SPC). Explain the long-run Phillips curve (LPC) in terms of expectation augmentation of SPC. Is LPC always vertical? Explain

$$3 + 6 + 1 = 10$$