

BACHELOR OF ARTS EXAMINATION, 2019
(2nd Year, 4th Semester)
ECONOMICS (HONOURS)
INTERMEDIATE MACROECONOMICS - II

Time : Two hours

Full Marks : 30

Answer *any two* of the following questions :

1. How does Harrod-Domar model of growth show that a capitalist economy is inherently unstable? [15]
2. Consider Tobin's speculative theory of demand for cash. Consider an individual wealth holder who has a given amount of wealth, which is assumed to be 1 unit. Suppose the utility function of the individual is given by $U = R - \rho^2$. Also suppose $r = \mu = 1$ and $\sigma = 4$. Derive the amount of wealth the individual will choose to hold in cash? Suppose r rises from 1 to 3. How will it affect the allocation of his wealth? How much of the change in his chosen allocation is due to substitution effect? (All notations have their usual meanings). [15]
3. Show that money ceases to be neutral if you incorporate money wage rigidity in the classical/neoclassical theory of income determination. [15]