1 (Sem–4) ECO 2

2025

ECONOMICS

Paper : ECO0400204

(Advanced Macroeconomics)

Full Marks : 60

Time : 2½ hours

The figures in the margin indicate full marks for the questions.

1. All the questions are compulsory :   8×1=8

   (a) In the IS-LM model, what happens to equilibrium income when government spending increases ?

   (b) What is the effect of an increase in money supply on LM curve.

   (c) Name *one* limitation of Harrod-Domar Model.

   (d) What is meant by diminishing returns to capital in the Solow Model.

   (e) Given the consumption function: C=1000+0·27Y. Calculate the value of MPS.

   (f) State whether the following statement is True or False : Keynes thought that income is the primary determinant of consumption and that interest rate does not influence consumption.

Contd.

(g) State *one* similarity between the Life Cycle Hypothesis and Permanent Income Hypothesis.

(h) What will be the effect of an incrase in relative price of housing on the flow of residental investment ?

2. Answer *any six* out of the following : 2×6=12

(a) State the effect of an increase in interest rate on the firm's inventory to sales ratio.

(b) Define MEC.

(c) State Keynes' Psychological Law of Consumption.

(d) What are the factors that may lead to an increase in demand for housing ?

(e) Briefly explain the concept of Purchasing Power Parity (PPP).

(f) What are the *two* main components of the Balance of Payments ?

(g) What is the difference between warranted growth and natural growth in Harrod-Domar Model ?

(h) Name *two* key factors that drive endogenous growth.

(i) What happens to an economy's unemployment and inflation rate, if the Central Bank repeatedly increases the money supply ?

(j) What are the determinants of Induced Investment ?

3. Answer *any four* out of the following :
5×4=20

(a) Distinguish between anticipated and unanticipated inventory investment.

(b) Briefly discuss the Permanent Income Hypothesis of Consumption.

(c) Briefly discuss the anomalies with Keynes' Consumption Function.

(d) Discuss how fiscal policy affects output and interest rates in the IS-LM framework.

(e) Analyse the impact of monetary expansion on income and interest rates in the IS-LM Model.

(f) Discuss the role of savings and investement in economic growth as per the Solow Model.

(g) Briefly discuss the Accelerator model of Inventories.

(h) The following equations describe an economy consumption function ; $C = 200 + 0.6Y$

Government Spending, $G = 600$

Investment, $I = 900 - 50r$

Money Demand Function, $L = 0.25Y - 62.5r$

Real money supply, $\dfrac{M}{P} = 50$

C, I, G are measured in cross and r in %.

(i) Find the equation of IS Curve

(ii) Find the equation of the LM Curve

4. Answer *any two* out of the following :

    10×2=20

    (a) Discuss a firm's decision to add capital stock or not using the Neo-Classical model of investment.

    (b) Explain the multiplier and accelerator interaction process that results in cyclical fluctuations in economic activity.

    (c) Illustrate that the trade-off between inflation and unemployment in the short-run and why it doesn't work in the long-run.

    (d) Derive the IS and LM curves and explain how they interact to determine equilibrium income and interest rates in a closed economy.

    (e) Describe the Mundell-Flemming Model under a fixed exchange rate system and perfect capital mobility.

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