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ECONOMICS

(Major)

Paper : 2.2

(Macroeconomics—II)

Full Marks : 80

Time : 3 hours

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

1. Answer the following as directed : $1 \times 10 = 10$

(a) Match the following Set—A with Set—B :

Set—A

Set—B

- | | |
|-------------------|-------------------------|
| (i) Expansion | (a) Turning Point |
| (ii) Peak | (b) Boom |
| (iii) Contraction | (c) Lower Turning Point |
| (iv) Trough | (d) Recession |

(b) Which of the following is regarding the shape of IS curve?

- (i) It is horizontal straight line
- (ii) It slopes downward to the right
- (iii) It slopes upward to the right

(Choose the correct answer)

- (c) In the IS-LM model, the demand for liquidity is assumed as
- (i) a function of the rate of interest
 - (ii) a function of the level of income
 - (iii) Both (i) and (ii)

(Choose the correct answer)

- (d) Who reformulated the quantity theory of money?
- (e) Give the meaning of the term 'liquidity preference'.
- (f) What is the condition for equilibrium in the product market?
- (g) What is meant by 'cost-push' inflation?
- (h) Define the investment multiplier.
- (i) Monetary policy is said to be trapped and that is the reason why horizontal part of the money demand schedule is called _____. (Fill up the blank)
- (j) "The Trade cycle is a purely monetary phenomenon." Who said the statement?

2. Answer the following questions in brief :

2×5=10

- (a) Why does the IS curve slope downward?
- (b) What is the effect of inflation on consumption?

- (c) Mention two features of inflation.
- (d) What is meant by a business cycle?
- (e) If $M = ₹ 500$, $M' = ₹ 250$, $V = 3$, $V' = 2$ and $T = 2000$, what will be general price level (p) and value of money ($\frac{1}{p}$)?

3. Answer any *four* of the following questions :

5×4=20

- (a) Why does the price of some commodities continue to increase while the rate of inflation is falling?
- (b) Distinguish between cost-push inflation and demand-pull inflation.
- (c) Explain the Fisherian equation.
- (d) Explain briefly the different phases of business cycle with the help of a diagram.
- (e) Why are the international measures important in controlling depression? What are international measures generally adopted?
- (f) Point out the weaknesses of IS-LM model.

4. Answer any *four* of the following questions :

10×4=40

- (a) What relationship does the IS curve capture? Derive the IS curve graphically and show why it slopes as it does.
- (b) Bring out the similarities and differences between Fisher's transaction approach and the cash balances approach.
- (c) Explain the 'structuralist view' on inflation in developing countries.
- (d) Discuss how Keynes reformulates the quantity theory of money.
- (e) What do you mean by multiplier-accelerator interaction? Prove that the interaction of the multiplier and accelerator provides a satisfactory explanation of the trade cycle.
- (f) Explain critically Hawtrey's theory of trade cycle.
- (g) Discuss the effect of inflation on production and distribution in an economy.
- (h) Within the IS-LM model, show how income and the interest rate are affected by (i) an increase in government spending and (ii) an increase in taxes.
