

2018

**ECONOMICS – II — HONOURS**

**Sixth Paper**

**(A – 32A)**

**(Module – I)**

**Full Marks – 50**

*The figures in the margin indicate full marks*

*Candidates are required to give their answers in their own words as far as practicable*

**Group – A**

1. Answer the following questions :

2×4

(a) Distinguish between consumer goods and capital goods. Which of these two are final goods?

*Or*

How is macroeconomics different from microeconomics?

(b) How would you treat the following issues while estimating national income

(i) Rent-free house to an employee by an employer.

(ii) Interest paid on loan taken to purchase a personal car.

*Or*

What adjustments are required to arrive at the figure of Net National Product at factor cost given the Gross National Product at market price?

(c) What is meant by 'value added' in the context of national income analysis?

(d) How is personal income different from national income?

**Group – B**

2. Answer the following questions :

(a) Suppose the marginal propensity to consume is equal to one. What will be the shape of the consumption function if there is no autonomous consumption? In this case what will be the value of marginal propensity to save? Under which assumption will the consumption function and the saving function be parallel to each other?

2+1+3

[Turn Over]

*Or*

In order to increase investment in an economy, it is essential to step up capital formation and for that purpose it is necessary to increase savings. But an increased desire to save may actually result in less savings and investment in the economy than before. Does this result puzzle you? Give reasons. 6

(b) Consider a closed economy with a government sector. Suppose that government expenditure and investment expenditure are autonomously given while consumption expenditure depends on disposable income. Further suppose that the government plans to increase its tax-revenue by increasing the amount of tax (the tax being a lump sum tax). Explain the effect of this increase in the tax amount on the equilibrium income. 6

*Or*

If marginal propensity to consume is 0.75, how much additional investment is required to increase income by Rs. 600? Also find the value of the multiplier in this case. What will be the value of the multiplier if the entire additional income is converted into additional consumption? 2+2+2

(c) Define and derive the LM curve. Explain its different possible slopes. 3+3

(d) If autonomous investment alone increases, how is the IS curve affected? Discuss its overall impact on equilibrium level of income and rate of interest, assuming that all other factors remain unchanged. 2+2+2

*Or*

"In an economy, where the market rate of interest has already reached its floor level, increase in money supply will fail to boost the equilibrium output." Explain fully. 6

(e) Examine the relationship between the quantity of money and the price level with the help of any one version of the Quantity Theory of Money. 6

*Or*

What is speculative demand for money? How is it related to the rate of interest? 2+4

### Group - C

3. Answer the following question :

What is High-powered money? Explain the Currency-Deposit Ratio and Reserve Deposit Ratio. Show that in any economy actual supply of money is much larger than the high-powered money. 2+(2+2)+6

*Or*

Explain the concept of Inflationary Gap. Bring out the significance of this concept in explaining the inflationary process. 6+6