2022

ECONOMICS — HONOURS

Paper : CC-9

(Intermediate Macroeconomics-II)

Full Marks : 65

The figures in the margin indicate full marks.

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

Section - A

1. Answer *any ten* questions : 2×10

(a) What are the two characteristics that New Classical economists consider to be essential for being it an useful macroeconomic model?

(b) If $\left[{}^{dy}\!/_{dt}\right]_d = \dfrac{1}{(1-mpc)}\left[\dfrac{dI}{dt}\right]$ is increment in $AD(Y)$ per unit of time and $\left[{}^{dy}\!/_{dt}\right]_s = a\dfrac{dK}{dt}$ is the increment in supply of output, then what is the capacity creating effect (Domar effect) of investment following goods market equilibrium?

(c) Calculate the warranted rate of growth in mpc is 0.80 and capital output ratio is 5.

(d) What do you mean by random walk of consumption expenditure?

(e) Calculate the permanent income of the financial year 2020 when rate of weightage for the annual income in the past is one third (0.33) when Y_{2019} = ₹ 6 lakhs and Y_{2020} = ₹ 4.5 lakhs.

(f) What is the new classical policy ineffectiveness proposition?

(g) Why do you think prices are sticky under imperfect competition according to the New Keynesians?

(h) Distinguish between Adaptive expectations and Rational Expectations.

(i) In a two period framework what happens to the budget line of the consumer if only first period's income increases?

(j) How does production function in Endogeneous growth model differ from production function of Solow model?

(k) What is Solow Residual?

(l) Define Harrod's concept of warranted rate of growth.

(m) Investment has a dual role Harrod Domar model – Discuss.

(n) If people become more thriftier than before what will happen to steady state level of capital accumulation?

(o) What is the most common measure of productivity in Real Business cycle models?

Section - B

2. Answer *any three* questions : 5×3

(a) Amphan cyclone destroys one-fourth capital stock. Discuss in the context of the growth model the adjustment process of the economy, and show graphically what happens to growth in the short and long run.

(b) Consider a risk lover. How will his indifference curve look like in the risk-return plane? How will he allocate his wealth between money and perpetuity in Tobin's model? Explain.

(c) Explain why the transaction demand for money is interest elastic.

(d) Explain the concept of interest rate rigidity and credit rationing in New Keynesian theory.

(e) How does Friedman reconcile the short run and long run behaviour of aggregate consumption?

Section - C

Answer *any three* questions.

3. Consider a production function $Y = K^{0.5}L^{0.5}$, where K is capital, L is the labour force.

(a) Show that production exhibits constant returns to scale.

(b) Find the per capita production function.

(c) We know the following facts about countries A and B : δ = depreciation rate = 0.05,
s_a = saving rate of country A is = 0.1,
s_b = saving rate of country B is = 0.2 and per capita production function derived in (b),

(i) Find the steady-state level of capital per worker of country A and B.

(ii) Calculate the steady-state levels of income and consumption per worker for countries A and B.

2+2+(2+4)

4. In this problem, you are to find the effects of a legal minimum wage on labour income of unskilled workers. Assume that the marginal product of labour for unskilled labour is MPN = 100 – 0.2N. The supply of unskilled labour is 80+2w, where w is the real wage received by unskilled labour.

(a) If there is no minimum wage, find the equilibrium values of the real wage, employment and labour income for unskilled workers.

(b) Now suppose that a minimum wage that sets the real wage at 70 is instituted. What are the new levels of employment and total labour income for unskilled workers?

(c) Repeat parts (a) and (b) for MPN = 100 – 0.9N. How does the imposition of a minimum wage of 70 affect labour income now? How does the impact of minimum wage on labour income depend on the sensitivity of labour demand to the real wage.

2+2+6

5. Discuss the effect of an increase in money supply with the assumption of Rational Expectations when policy change is
   (a) Anticipated
   (b) Unanticipated. 5+5

6. Consider a simple economic model consisting of two markets the labour market and capital market. Suppose a temporary negative productivity stock hits the economy, what happens to employment, output and interest rate? Do you think each generates a correct correlation with GDP? 8+2

7. Present Relative Income Hypothesis by Duesenberry and explain the concept of "Ratchet Effect" in this context. 10