

2023

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) According to Real Business Cycle economists what is productivity shock? Give one example each of a beneficial shock and an adverse shock.
- (b) Explain briefly the concept of credit rationing.
- (c) Distinguish between forward-looking expectations of Rational expectations model and backward-looking expectations of Keynesian model.
- (d) What is intertemporal substitution of labour in RBC theory?
- (e) What is the consumption function puzzle?
- (f) What is consumer smoothing?
- (g) How does a tax cut affect consumption spending in Permanent Income Hypothesis?
- (h) Suppose a 90-year old person and a 20-year old person each received a lottery of Rupees one crore, which one would increase consumption the most and why?
- (i) Explain the concept of Ratchet effect in Dusenbery's theory of consumption.
- (j) Mention any four events that might influence the fixed cost of transaction in the Baumol Tobin model of demand for money.
- (k) Define the concept of critical level of market rate of interest in the Regressive expectations model.
- (l) Outline the growth accounting equation and explain each component.
- (m) Explain the significance of AK model in endogenous growth theory.
- (n) What is conditional convergence in Solow model?
- (o) What is the condition for equilibrium growth in Domar model?

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Section - B

2. Answer *any three* questions :

5×3

- (a) Explain the efficiency wage model of Shapiro and Stiglitz.
- (b) Explain how Robert Hall formulated consumption theory by incorporating the assumption of Rational Expectations.
- (c) Tobin distinguished between three types of preferences that an individual might have towards risk. What are they? Explain the shape of indifference curve in each case.
- (d) Why does the individual demand for money look like a step function while aggregate demand for money curve is downward sloping in the Regressive expectations model of demand for money?
- (e) Explain, in Solow model, how technological progress is a source of sustained increase in output.

Section - C

Answer *any three* questions.

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3. Explain diagrammatically the effects of a temporary increase in Government expenditure in the RBC model. What is the cause of unemployment? Can Government use Fiscal policy to reduce unemployment? 5+2+3
 4. What are the assumptions Friedman makes in his permanent income hypothesis? Explain with the help of these assumptions, that for the above average income group, the consumption point lies below the permanent consumption line and the opposite is true for a lower than average income group. Can this analysis be used to explain the short run cyclical fluctuations in income? Explain with help of diagram. 3+7
 5. (a) Explain the process, where a consumer takes decision on present consumption and future consumption using the intertemporal budget constraint.
(b) If the interest rate rises, how are present and future consumption affected? How do you explain the total change in consumption in terms of the income effect and substitution effect? 4+6
 6. Define steady state. Will an economy automatically achieve steady state? What is the rationale for finding the Golden Rule level of capital accumulation? Derive and intuitively explain the Golden Rule. 1+3+1+5
 7. Present briefly Harrod's model of Growth. What will happen if —
(a) the warranted rate of growth exceeds natural rate of growth
(b) the warranted rate of growth falls below natural rate of growth? 6+4
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