

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  $\left[ \frac{dy}{dt} \right]_d = \frac{1}{(1-mpc)} \left[ \frac{dl}{dt} \right]$  is increment in  $AD(Y)$  per unit of time and  $\left[ \frac{dy}{dt} \right]_s = a \frac{dK}{dt}$  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.

Please Turn Over

- (n) If people become more thrifter 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

5×3

2. Answer *any three* questions :

- (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 :  $\delta$  = 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 shock 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
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