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63/2 (SEM-1) ECO 1.2

2021

(held in 2022).

**ECONOMIC**

(Theory Paper)

Paper Code : ECO-1.2

(Macro Economics – I)

Full Marks – 80

Time – Three hours

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

1. Answer the following questions : 2×4=8
- (a) Define real GDP.
  - (b) Define Producer Price Index (PPI).
  - (c) What is 'demonstration effects' ?
  - (d) Define the rental / user cost of capital.

[Turn over

2. Answer the following questions :  $5 \times 4 = 20$

(a) Suppose a model is given as follows :

$$C = 100 + .08 Y_d \text{ (Where } Y_d = Y - T)$$

$$I = 150$$

$$G = 50$$

$$T = 20 + 0.25 Y$$

Find equilibrium level of income, consumption and savings.

(b) Explain in brief of the Arthur Okuns Law.

(c) Distinguish between MEC and MEI.

(d) Neutrality of Money.

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

$$10 \times 2 = 20$$

(a) What is meant by withdrawals and injections ?  
How do they affect the size of the circular flows of income and expenditure in an economy ?

$$4 + 6 = 10$$

(b) Explain the consumption function puzzle. Is it improvement over Keynes consumption function ? Discuss.

$$7 + 3 = 10$$

(c) Critically discuss the accelerator theory of investment.

(d) What is real balance effect ? Explain why Pigou's effect of real balance effect is also known as wealth effect.

4. Answer the following questions :  $16 \times 2 = 32$

(a) Explain the product or value added, income and expenditure method of national income accounting. Does an increase in the size of national product signify an enhancement in national welfare ?

$$8 + 8 = 16$$

Or

Examine the effect of an increase in the demand for labour on employment, output, wages and price level in the classical model.

$$8 + 8 = 16$$

(b) Critically explain the permanent income hypothesis.

Or

Explain the Friedman's Modern Quantity Theory of Money.