

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR**
Course: **Macro Economics**
Semester-II (Batch: 2016-21)

End Semester Examination: April-May 2017

Date: 6th May, 2017

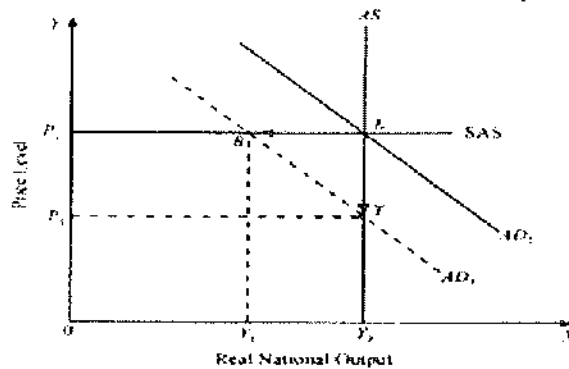
Duration: 3 hours

Max. Marks: 50

Instructions:

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write any thing on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.

- | | Marks |
|--------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Q.1 Explain any five of the following questions with reasons or examples and draw diagrams wherever necessary. (approximately 30-50 words) | (5x2=10) |
| (a) Leaky Bucket Syndrome and Fine Tuning | |
| (b) Wage –Price Flexibility in context of Classical Economics vs. Keynesian Economics, based on the following diagram. | |



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|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| (c) Classical Dichotomy | |
| (d) Collapse of the Phillips curve. | |
| (e) Objective and Mandates of Macroeconomics | |
| (f) Cold Turkey Policy versus Gradual Policy in the context of disinflation policy. | |
| Q.2 Write short notes on any five of the following questions and illustrate with diagram wherever necessary. (approximately 175-225 words) | (5x6=30) |
| (a) Discuss Long Run Phillips Curve analysis of Milton. Friedman's (Adaptive Expectation theory) vs. New Classical Economics (Rational Expectations). | |
| (b) Discuss in detail complete classical model for the determination of output and employment. What changes will occur due to increase in quantity of money? | |
| (c) Describe the Keynes's theory of Effective Demand for achieving full employment. What are the causes of Cyclical Unemployment and Depression from Keynes's point of view? | |

- (d) (i) In the Classical model of determination of income and employment in short run without saving and investment: Why decrease in aggregate demand will lead to Voluntary Unemployment? Explain.
- (ii) Describe Classical Theory of Full Employment in case of effect of increase in Labour Supply in the economy.
- (e) (i) Derive the saving - investment approach and aggregate demand - aggregate supply approach yield the same level of equilibrium. What happens in case of (i) AD/AE (Aggregate Demand) exceeds AS/AO (Aggregate Supply) and (ii) AS (Aggregate Supply) exceeds AD (Aggregate Demand)?
- (ii) Explain how multiplier process works, when investment increase by 100 million. How much amount of GDP will rise? Assume, MPC = 0.8 (80 %).
- (f) (i) Derive and explain the IS-LM Theory.
- (ii) Draw the diagram of policy mix (Fiscal + Monetary) with the help of the following table.

Selected Macro Variables for the Country X , 2013-2017					
	2013	2014	2015	2016	2017
Budget surplus (% of GDP) (minus sign = deficit)	-3.7	-3.5	-3.1	-2.3	-1.9
GDP growth (%)	3.4	2.9	2.7	2.3	1.9
Interest rate (%)	3.3	5.0	5.6	6	7.2

Q.3 Explain any one of the following in detail and illustrate with diagram wherever necessary. (approximately 375-425 words)

- (a) Explain the Supply Side Economic Model for solving the problem of stagflation. Discuss the four pillars of Reaganomics. What are the drawbacks of Supply-Side Economics? Whether demonetization policy and GST are tools of supply side of economics? Explain. (10)
- (b) (i) Discuss the New Classical Economics Model in case of (i) Anticipated Policy Actions and (ii) Unanticipated Policy Actions. What changes will occur in employment, output and price level in the short run with the increase in money supply (Expansionary Monetary Policy)? (8+2=10)
- (ii) Whether the outcomes of expansionary monetary policy are similar in Rational Expectation (Unanticipated approach) = Keynesian's school = Monetarist's school (short-run approach)? Explain.
