K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,
Vidyavihar, Mumbai- 400077

Program: *PGDM-A&B (Batch2017-19), TRI-II*
Subject: Macro Economics
(End Term Examination)

Maximum Marks: 50   **Date: 26th Dec 2017**   **Duration: 3 hrs**

Instructions

Attempt **any five** of the following
All questions carry equal marks

1 a) Suppose we have an economy characterized by the following functions:

$C = 100 + 0.8Y_d$

$I = 100$

$G = 100$

$Tax = 100$

Find the equilibrium level of income

How much increase in income will take place if government expenditure on goods and services increases by INR 60 crores.

Find the tax multiplier and the balanced budget multiplier. What are the implications of a balanced budget?

b) In a three sector model examine the phenomena of crowding out and when would you expect it to occur?

2a. Examine the impact of an increase in price level on the components of aggregate demand in an economy.

b. Examine the various indexes used to measure inflation

3 a. Distinguish diagrammatically the aggregate demand expansion in the Classical and Keynesian case.

b. "All economists are in favour of policies that move the aggregate supply curve to the right by increasing potential GDP".   Diagramatically evaluate the success of such policies.

4. Using the IS-LM model analyse the impact of increase in government expenditure and expansion in money supply on interest rate and income.

5.a. Explain the Fiscal Policy of Automatic Stabilizers.

b. "A decrease in the income tax rate will increase consumer spending; therefore the demand for money will go up and the LM-curve will shift to the right." Comment on this statement.

6.a "Expansionary monetary policy becomes more effective as the interest sensitivity of investment increases." Comment on this statement.

 b. How does a tight monetary policy work to check inflation?

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