K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH,
Vidyavihar, Mumbai- 400077
Program: *PGDM-A (Batch2018-20) Trimester-II*
Subject: Macro Economics
(End Term Examination)

Maximum Marks: 50   **Jan 10th 2019**
Duration: 3 hours

Answer <u>any Five</u> of the following.
All questions carry equal marks.

1a Assume a model without any government involvement, and in which the only two components of aggregate demand are consumption and investment. Show that, in this case, the equilibrium condition $Y = C + I$ is equivalent to the equilibrium condition $S = I$.

b. An economy is characterized by the following functions:
$C = 100 + 0.8Yd$
$I = 100$
$G = 100$
$T = 100$

i) Find the equilibrium level of income
ii) How much increase in income will take place if government expenditure on goods and services increases by INR 60 crores
iii) Find the tax multiplier and balanced budget multiplier

2a.Using a simple model of the expenditure sector without any government involvement, explain the paradox of thrift that asserts that an increased desire to save may not lead to an increase in actual saving.

b.Examine the impact of change in price level on aggregate demand as the sum of four categories of spending, that is, $C + I + G + NX$.

3a. Why is the classical supply curve vertical?

b. Assume a technological advance leads to lower production costs. Show the effect this will have on national income, unemployment, inflation, and interest rates with the help of an AD-AS diagram, assuming completely flexible wage rates.

4.With the help of an IS-LM diagram examine the impact of the following on the rate of interest and national income
   i)   Impact of an increase in government expenditure
   ii)   Effect of a cut in taxes
   iii)   Effect of expansion in money supply

5a.What is crowding out and when would you expect it to occur? In the case of substantial crowding out,which will be more successful fiscal or monetary policy?
b)Diagramatically explain the effectiveness of discretionary fiscal policy in curing recession and attaining equilibrium at full employment level.

6.Critically examine the statement " Monetary policy for its success depends on fiscal policy"

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