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Name of the Paper : Intermediate Macroeconomics-II

Name of the Course : B.A. (Honours) Economics-CBCS

Semester : IV

Duration : 3 Hours   Maximum Marks : 75

(Write your Roll No. on the top immediately on receipt of this question paper.)

(इस प्रश्न-पत्र के मिलते ही ऊपर दिए गए निर्धारित स्थान पर अपना अनुक्रमांक लिखिये।)

Note :—   Answers may be written *either* in English *or* in Hindi but the same medium should be used throughout the paper.

टिप्पणी :—इस प्रश्न-पत्र का उत्तर अंग्रेजी या हिन्दी किसी एक भाषा में दीजिए; लेकिन सभी उत्तरों का माध्यम एक ही होना चाहिए।

Answer all *five* questions. Attempt any *two* parts from each question.

All questions carry equal marks, 15 marks each.

सभी पाँच प्रश्नों के उत्तर दीजिये। प्रत्येक प्रश्न के किन्हीं दो भागों का उत्तर दीजिए।

सभी प्रश्नों के अंक समान हैं, प्रत्येक प्रश्न 15 अंकों का है।

1. (a) In the Harrod's model, the interaction between the accelerator and the multiplier can lead to upwards or downwards instability depending upon the initial configuration of entrepreneur's expectation. Explain. 7.5

   (b) (i) Suppose in the Solow Model output in a country is produced with the production function $Y = AK^{\alpha}L^{1-\alpha}$, where $0 < \alpha < 1$. Capital depreciates at the rate δ and productivity, A, and saving rate s, is assumed constant. Suppose initially economy is at the steady state with constant population growth rate n_1. Depict the steady state equilibrium in a graph. Now suppose there is a one-time increase in immigration, perhaps due to the influx of refugees from a troubled foreign country. Use the previous graph to illustrate the short-run and the long-run effects of this on the domestic economy.

(ii) Describe graphically how an economy attains golden rule of capital accumulation. If an economy starts with too little capital, show the transition path of output per worker, consumption per worker and investment per worker to reach the golden rule steady state.   3+4.5

(c) (i) Assuming $\lambda = 1$ and $\Phi = 0$ explain how a onetime increase in the productivity of research as measured by an increase in δ would affect growth rate and the level of technology overtime in the Romer Model ?

(ii) Explain why the share of population that works in the research sector is less than optimal in the Romer Model.   4.5+3

(अ) हैरोड के मॉडल में, त्वरक और गुणक के बीच परस्पर क्रिया उद्यमी की अपेक्षा की प्रारंभिक विन्यास के आधार पर ऊपर या नीचे अस्थिरता का कारण बन

(स) (i) मान लीजिये कि $\lambda = 1$ और $\Phi = 0$ है, व्याख्या कीजिये कि δ में वृद्धि के आधार पर शोध की उत्पादकता में एक बार वृद्धि कैसे रोमर मॉडल में लम्बे समय तक विकास दर और प्रौद्योगिकी के स्तर को प्रभावित करेगी ?

(ii) रोमर मॉडल में शोध क्षेत्र में काम करने वाली जनसंख्या का हिस्सा इष्टतम स्तर से कम क्यों है? व्याख्या कीजिये।

2 (a) In the Life Cycle hypothesis an individual's consumption is proportional present value of future income. Explain the factors that determine the present value. Assuming capital markets to be working efficiently, if there is an unexpected increase in income from real estate how would it affect consumption ? 7.5

(b) (i) State the assumptions concerning Friedman's permanent income hypothesis. Using his analysis showing the variation in average consumption and income over the business cycle explain why MPC < APC in the short run and APC = MPC in the long run 5.5

(ii) Why is the model less satisfactory than the Ando Modigliani Model ?   2

(c) (i) In a two period (period 0 and period 1) consumption optimization model given by Irving Fisher suppose the individual's $c_0 < y_0$. Where c is consumption, y is income and r is the rate of interest on borrowing and saving. Consider a consumer's preferences over current and future consumption given by $U(c_0, c_1)$. Show the utility maximization point with the help of a figure.

(ii) How would his consumption be affected in period 0 and 1 if income increases in period 0 and if interest rate on savings increases. Consider consumption has normal good property.   3.5+4

(अ) लाइफ साइकिल परिकल्पना में एक व्यक्ति का उपभोग भविष्य की आय का आनुपातिक वर्तमान मूल्य है। वर्तमान मूल्य निर्धारित करने वाले कारकों की व्याख्या कीजिए। पूँजी बाजारों को प्रभावी ढंग से काम करने की मान्यता से, अगर अचल संपत्ति से आय में अप्रत्याशित वृद्धि

3. (a) (i) Explain the gradual adjustment formulation of net investment in the neoclassical approach. Explain how the increase in the expected output; an increase in real interest rate; and a temporary increase in investment tax credit affects the rate of investment. 5

(ii) Explain the q theory of investment and how it is used to determine housing investment. 2.5

(b) Determine the equilibrium portfolio choice of a 'diversifier' in the portfolio balance approach. Explain with the help of a figure why the demand for money must decrease by progressively smaller amounts as interest rate increases by constant increments. 3+4.5

(c) Explain using an appropriate model why transactions demand for money increases with square root of income and decreases with the square root of interest rate. 7.5

(अ) (i) नियोक्लासिकल दृष्टिकोण में शुद्ध निवेश के क्रमिक समायोजन फॉर्मूलेशन की व्याख्या कीजिए। व्याख्या कीजिए कि अपेक्षित उत्पादन में वृद्धि वास्तविक ब्याज दर में वृद्धि; और निवेश-कर क्रेडिट में अस्थायी वृद्धि निवेश की दर को कैसे प्रभावित

(ii) निवेश के क्यू सिद्धांत की व्याख्या कीजिए और आवास निवेश को निर्धारित करने के लिए इसका उपयोग कैसे किया जाता है?

(ब) पोर्टफोलियो बैलेंस दृष्टिकोण में 'विविधता' के समतोल पोर्टफोलियो विकल्प का निर्धारण कीजिए। एक आंकड़े की मदद से समझाइये कि निरंतर वृद्धि के कारण ब्याज दर में वृद्धि के रूप में मुद्रा की माँग क्रमशः कम मात्रा में कम क्यों होनी चाहिए?

(स) उचित मॉडल का उपयोग करके समझाइये कि लेन-देन के लिए मुद्रा की माँग आय के वर्ग रूट के साथ बढ़ जाती है और ब्याज दर के वर्ग रूट के साथ घट जाती है।

4. (a) (i) Explain the factors that affect the debt GDP ratio. How does an increase in inflation and primary budget surplus affect the debt GDP ratio ? Explain why private investors would be unwilling to hold government debt. 5

(ii) What is the merit of using cyclically adjusted deficit ? What are the implications when cyclically adjusted deficit is positive ?

25

(b) The Phillips curve is given by

$$\pi_t - \pi_{t-1} = -\alpha \, (u_t - u_n)$$

Suppose the central bank has an inflation target π^*.

(i) If the central bank is able to keep the inflation rate equal to the target inflation rate every period, will the economy experience fluctuations in unemployment ?

(ii) If the natural rate of unemployment changes frequently will the central bank be able to hit the inflation target ?

(iii) Suppose $\alpha = 1$ and the central bank is keen to reduce the unemployment rate below the natural rate by 1 per cent how will it affect inflation overtime ?

(iv) What is time inconsistency of optimal policy and which policy can be used to overcome it ?

1.5+1.5+2+2.5

(c) (i) Explain how asymmetric information problems hinder the operation of the financial systems ? Discuss the ways in which the government can improve the quality of financial information ? 5

(ii) Outline the key equations of the basic DSGE model. 2.5

(iii) मान लीजिए .... दर से बेरोजगारी दर को 1 प्रतिशत तक कम करने को इच्छुक है, यह मुद्रास्फीति को अधिक समय तक कैसे प्रभावित करेगा?

(iv) इष्टतम नीति का समय असंगतता क्या है और इसे दूर करने के लिए किस नीति का उपयोग किया जा सकता है?

(स) (i) वर्णन कीजिये कि असममित सूचना की समस्याएँ वित्तीय प्रणालियों के संचालन में बाधा डालती हैं? उन तरीकों पर चर्चा कीजिये जिनसे सरकार वित्तीय सूचना की गुणवत्ता में सुधार कर सकती है।

(ii) मूल डीएसजीई मॉडल के प्रमुख समीकरणों की रूपरेखा तैयार कीजिए।

5. (a) (i) What are the two types of asset price bubble and which one possess a bigger threat to the financial system ? How should central banks respond to asset price bubbles ?   5

(ii) What is the source of business cycle in the policy ineffectiveness proposition ? Does it provide a satisfactory explanation of business cycles ? 2.5

(b) (i). How does an adverse supply shock affect the production function and labour demand in the RBC model ? What are the limitations of these models ? 5

(ii) Examine the effectiveness of Seignorage as a way of raising revenues for the government. 2.5

(c) (i) A central bank that follows the Taylor rule will stabilize activity and achieve its target inflation rate in the medium run. Explain. 4

(ii) Given government budget constraint, suppose the budget is balanced till the end of year 0. The government decides to decrease taxes by 1 in year 1. Find out the amount of primary surplus that is necessary to retire the debt in year t. If Ricardian equivalence holds how would the tax cut affect the economy ? 3.5

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