

School of Liberal Arts

Political Science

ETE - Jun 2024

Time : 3 Hours

Marks : 100

Sem II - K1UB202T - Introductory Macro Economics

Your answer should be specific to the question asked

Draw neat labeled diagrams wherever necessary

1. In a simple model of the expenditure sector with a positive income tax rate (t), discuss if a decrease in autonomous investment (I_0) affects the budget surplus. Why or why not? K2 CO1 (5)
2. "Unemployment hysteresis generally exists when the economy is entering a deep recession and workers fear lay-offs." Interpret this statement. K2 CO1 (5)
3. The balanced budget theorem states that the government can stimulate the economy without increasing the budget deficit if an increase in government purchases (G) is financed by an equivalent increase in taxes (TA). Demonstrate that this is true for a simple model of the expenditure sector without any income taxes. K2 CO1 (5)
4. Briefly explain how and why each of the following changes would affect the natural rate of unemployment: K2 CO2 (10)
 - (a) a decrease in unemployment benefits;
 - (b) an increase in the minimum wage;
 - (c) a higher number of teenagers in the work force.
5. 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. K3 CO3 (10)
6. "If a central bank decides to accommodate an adverse supply shock, it will intensify the inflationary effects." Illustrate on this statement with the help of an AD-AS diagram. K3 CO3 (10)
- 7) Illustrate on the following statement: "Wage indexation can lead to an inflation spiral." K3 CO3 (10)

OR

- Illustrate the policies you would suggest to reduce the natural rate of unemployment? K3 CO3 (10)
8. "Restrictive monetary policy will help to decrease inflation; the resulting increase in the natural unemployment rate is a small price to pay." Analyse this statement. K4 CO2 (15)
 9. Analyse the effects of restrictive fiscal policy on the level of output, prices, and interest rates for (i) the Keynesian AS-curve case, (ii) the classical AS-curve case, and (iii) the intermediate case. K4 CO4 (15)
 - 10) "The stickiness of wages implies that policy makers can achieve low unemployment only if they are willing to put up with high inflation." Assess this statement. In your answer justify the slow adjustment of wages and prices. K5 CO4 (15)

OR

- Examine the short-run and long-run effects of an increase in government purchases on output, unemployment, interest rates, prices, and real money balances. K5 CO4 (15)