[This question paper contains 4 printed pages.]

Your Roll No..............

Sr. No. of Question Paper : 5106 **H**

Unique Paper Code : 2922102401

Name of the Paper : Macroeconomics – II

Name of the Course : **B.A. (H) Business Economics**

Semester : IV

Duration : 3 Hours Maximum Marks : 90

Instructions for Candidates

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

2. All parts of each question must be done together.

3. Use diagrams wherever required.

4. Question no. **1** is compulsory.

5. Attempt **five** questions in all.

1. State true or False **(any six)**. Also give explanation in support of your answer. (3×6)

(i) In the medium run, output and the price level always return to the same value. (F)

(ii) In the late 1960s, the economists Milton Friedman and Edmund Phelps said that policy makers cannot reduce the rate of unemployment beyond a certain level. (T)

(iii) The unemployment rate tends to be high in recessions and low in expansions. (T)

(iv) Absolute PPP states that the domestic price level should equal the foreign price level times the spot exchange rates. (T)

(v) An increase in the expected price level leads to an increase in the nominal wage, in the same proportion. (T)

(vi) A reduction in the budget deficit initially causes a decline in output. However, with time, output eventually returns to its natural level. (F)

(vii) According to Keynes APC and income are directly related.

(viii) MPK determines the real rental price of capital.

(F)

2. (a) Describe Franco Modigliani's life cycle hypothesis, outlining how individuals adjust their savings over their lifetime to manage consumption needs. (12)

(b) What are the justifications for a firm to hold its inventories? (6)

3. 'The aggregate demand relation captures the effects of the price level on output while the aggregate supply relation captures the effects of output on the price level.' Explain the derivation of AS and AD relations in the medium run macroeconomic model. (18)

4. (a) Discuss the relation between inflation, anticipated inflation, and the rate of unemployment. (6)

(b) When inflation is not very persistent expected inflation does not depend too much on past inflation. Discuss this statement with reference to Phillips curve. (12)

5. (a) Comment, how expectations of inflation are formed. How will this influence the adjustment path of interest rates to a change in money growth. (12)

(b) How does co-ordination problem explain wage stickiness? (6)

6. Determine the level of income and the exchange rate which satisfy equilibrium conditions both in goods market and in money market. (18)