3 (Sem–2) ECO M 2

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ECONOMICS

(Major)

Paper : 2.2

(Macroeconomics—II)

Full Marks : 80

Time : 3 hours

The figures in the margin indicate full marks for the questions

1. Answer the following questions : 1×10=10

(a) What do you mean by the term 'liquidity preference'?

(b) What is the condition for equilibrium in the money market?

(c) Mention one limitation of the classical approach to the quantity theory of money.

(d) What is inflationary gap?

(e) Mention one basic difference between monetary theory and multiplier accelerator interaction theory of trade cycle.

(f) Define 'LM curve'.

(g) What is meant by demand-pull inflation?

(h) How will the IS curve shift, when government spending is decreased?

(i) Mention two important characteristics of a business cycle.

(j) State the Marshallian cash-balance equation giving the meaning of the variables.

2. Answer the following questions in brief : 2×5=10

(a) Distinguish between transaction demand for money and asset demand for money.

(b) Why does LM curve slope downward?

(c) Point out the difference between prosperity and depression.

(d) What condition is required for the LM schedule to be vertical?

(e) What is the effect of inflation on production?

3. Answer any *four* of the following questions : 5×4=20

(a) Examine proportionality between the quantity of money and the general price level using Fisherian equation of exchange.

(b) Explain briefly the concept of 'liquidity trap'.

(c) Comment on the relationship between elasticity of LM curve and relative efficiency of fiscal and monetary policy.

(d) Distinguish between cost-push inflation and demand-pull inflation.

(e) Discuss briefly how Hicks explained the factors behind trade cycle.

(f) Outline the 'structuralist view on inflation'.

4. Answer any *four* of the following questions : 10×4=40

(a) How is the LM curve affected by the change in the money supply and the demand for money? Show it graphically. 10

(b) How does interaction between multiplier and accelerator lead to economic expansion and then to depression? 10

(c) Compare between Fisher and Cambridge versions of the quantity theory of money. Which one is superior and why? 6+4=10

(d) Explain the nature of 'cost-push' inflation. What measures would you suggest to control such inflation? 5+5=10

(e) Define and explain the speculative demand for money. Why is the speculative demand for money interest-elastic? 6+4=10

(f) "Trade cycle is a purely monetary phenomenon." Explain critically. 10

(g) Within the IS-LM curve model, what would be the effect of an increase in government spending and money supply on income and interest rate? Explain. 10

(h) Write short notes on the following : 5+5=10

(i) Measures to control trade cycle

(ii) Product market and money market

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