

GENERAL ECONOMICS-II

2015

Time Allowed : Three Hours

Maximum Marks: 200

INSTRUCTIONS

Please read each of the following instructions carefully before attempting questions.

There are THIRTEEN questions divided under THREE sections.

The ONLY question in Section A is compulsory. In Section B, EIGHT out of NINE questions are to be attempted.

In Section C, TWO out of THREE questions are to be attempted.

Candidates should attempt questions/parts as per the instructions given in the Section.

Any assumptions made for answering a question must be mentioned clearly.

The number of marks carried by a question/part is indicated against it.

All parts and sub-parts of a question are to be attempted together in the answer book.

Attempts of questions shall be counted in chronological order. Unless Struck off, attempt of a question shall be counted even if attempted partly.

Any page or portion of the page left blank in the answer book must be clearly struck off.

Candidates are required to write clear, legible and concise answers and to adhere to word limits wherever indicated. Failure to adhere to word limits may be penalized.

Answers must be written in ENGLISH only.

Section A

(The only question in this section is compulsory)

1. Attempt all of the following parts in about 75 words each : 8x5=40

- (a) Is inflation better measured by CPI or WPI ?
- (b) Differentiate between primary poverty and secondary poverty.
- (c) Mention five stages of Rostow's Growth theory.
- (d) The efficiency market hypothesis implies that abnormal returns are expected to be zero. Yet, in order for markets to be efficient, arbitrageurs must be able to force prices back into equilibrium. If they earn profits in doing so, is this fact inconsistent with market efficiency ?
- (e) Why the 'Gross Domestic Product' is sometimes referred to as a 'Grossly Deceptive Product' ?

- (f) State the World Bank affiliates in the present times.
- (g) Why is the Keynesian Range referred to as the 'Liquidity Trap' ?
- (h) Explain briefly the multiplier accelerator model.

Section B

(Answer any EIGHT out of the following NINE questions in about 150 words each) 15x8=120

2. How is Expectations augmented Phillips Curve different from the original Phillips Curve ?
3. Prepare a hypothetical sectoral account for Gross National Product and Social Account. Thereafter, examine the differences between the two approaches.
4. Examine the effect of international trade on the difference in the factor prices 'between nations', and the effect of international trade on the relative factor prices and income 'within' each nation.
5. The following functions are estimated for an economy:

Consumption Function	:	$C = 200 + 0.75Y_D$
Investment Function	:	$I = 400 - 50i$
Government Purchases	:	$G = 200$
Taxes	:	$T = 0.2Y$
Real demand for money	:	$L = 0.5 - 75i$
Nominal money supply	:	$M_s = 900$

(Here Y_D stands for disposable income; Y for income, and 'i' represents interest rate in percentage points. All other figures are in USD billions)

 - (a) Estimate the equation for the IS curve and the LM curve. Thereafter, solve the system for equilibrium level of real income and real interest rate.
 - (b) Suppose the government purchases are increased from 200 to 300. Estimate the change in income. Has there been any crowding out of private investment ? Represent the information graphically (graph need not be to scale).
6. Examine Life Insurance as an investment in relationship management.
7. Comment on Agreement on Agriculture (AcA) under WTO with reference to agricultural subsidies.
8. Analyze the Harrod-Domar Model of Growth with reference to Knife Edge Balance.
9. How is innovation different from invention ? Examine Schumpeter's theory of innovation in the present times.
10. Examine how inequalities in income and wealth depend on institutions and policies that societies choose to adopt. Illustrate using examples from developed and developing countries.

Section C

(Answer any TWO out of the following THREE questions in about 300 words each) 20x2=40

11. In addressing operational challenges such as poverty, many researchers wish to build insights raised by Sen's Capability Approach and related writings. In this context:
 - (a) Provide a sketch of the core concepts of the capability approach, and
 - (b) Trace some important avenues along which the Human Development Reports have operationalized certain aspects of Sen's capability approach.
12. An economy is suffering from Balance of Payments deficit. Assuming fixed exchange rates and flexible prices, explain the automatic adjustment process by which the deficit can be corrected. Is a policy action, such as, devaluation equally desirable?
13. What are market and non-market failures? In light of these, comment on the rationale of good governance from a macro-economic perspective.

WORLD OF ECONOMICS, SCO 218, SECTOR 36D, CHANDIGARH, MOB: 98166 16505