GENERAL ECONOMICS

Paper II

Time Allowed : Three Hours

Maximum Marks : 200

QUESTION PAPER SPECIFIC INSTRUCTIONS

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

There are **SIXTEEN** questions divided under **THREE** Sections.

The **ONLY** question in Section A is **compulsory.**

In Section B, **SIX** out of **NINE** questions are to be attempted.

In Section C, **FOUR** out of **SIX** questions are to be attempted.

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

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

Attempts of questions shall be counted in sequential 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.	Answer the following questions in about 100 words each :	6×5=30

1. (a) What is value-in-use and value-in-exchange according to the classical economists ? In this context, explain the diamond-water paradox as indicated by Adam Smith.

1. (b) From national income accounting find the value of investment if private savings is worth Rs. 200 crores, government savings is Rs. 50 crores and current account balance is Rs. 20 crores.

1. (c) Show and explain that the investment multiplier value is lower in an open economy compared to a closed economy.

1. (d) Describe Schumpeter's concept of innovation.

1. (e) Describe the merits of flexible exchange rate system.

1. (f) Why do financial intermediaries like banks exist in a modern money-using economy ?

SECTION 'B'

(Answer any **SIX** out of the following **NINE** questions in about 200 words each) : 15×6=90

2. How surplus and hence, wealth is generated as per Physiocrats ? Explain in terms of Quesnay's Tableau Economique.

3. Explain the role of financial sector especially commercial banks in modern economic development.

4. Discuss the knife-edge instability problem in Harrod-Domar growth model.

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5. Show that monetary policy is effective in raising income of a nation if exchange rate is fixed, no matter whether capital mobility is perfect or imperfect (show both the cases).

6. Discuss the main ingredients of elasticity approach for adjustment of disequilibrium in balance of payments.

7. Discuss the role of IMF in stabilizing the world economy.

8. Compare and contrast demand-pull and cost-push inflation.

9. What is the motivation for the new growth theory ? Describe main points of difference between Solow model of economic growth and basic endogenous growth model.

10. Discuss the main tenets of the theory of underdevelopment as propounded by dependency school.

SECTION 'C'

(Answer any **FOUR** out of the following **SIX** questions in about 300 words each) :

20×4=80

11. In an economy following data are given :

Consumption function   : $C = 250 + 0.5 (Y - T) - 500r$

Investment function   : $I = 250 - 500r$

Real Money Demand   : $\dfrac{M_d}{P} = 0.5y - 500r$

Real Money Supply   : $\dfrac{M_s}{P} = \dfrac{7650}{P}$

Aggregate Supply   =   Full-employment level $= \bar{Y} = 1000$

Government Expenditure   = $G = $ Tax $= T = 200$

Find out   (i)   Equation of *IS* curve
    (ii)   Equation of *LM* curve
    (iii)   Equation of *AD* curve
    (iv)   Equilibrium values of *P*, *r*, *C* and *I*.
    (v)   Show graphically what happens to equilibrium values when money supply increases ?   (2+2+2+6+8)=20

12. When is it more effective to pursue a Hirschmanian strategy compared to Nurksian balanced growth model approach ? Discuss after explaining the essence of both the models.

13. What are the basic static and dynamic arguments for economic integration in less developed countries ?

14. Differentiate between short run and long run Philips curve. What implications they have for the conduct of macroeconomic policies ?

15. State the assumptions of Hecksher-Ohlin model and explain the role each assumption plays in the derivation of the main results of the model.

16. Critically discuss the following concepts related to growth and welfare and mention some of the modifications suggested :
    (i)   Human Development Index (HDI)
    (ii)   Human Poverty Index (HPI)
    (iii)   Physical Quality of Life Index (PQLI)