

20025

Answer key

**SYBAMacro economics II Semester IV**

[Time: 3 Hours]

[Marks: 100]

**Q.1 Attempt any two of the following:**

**20**

a. Explain the concept and components of money supply.

Ans: Money supply- stock of money held by people in spendable form. Components- Traditional money- currency and DD, Modern measure- Currency, Demand Deposits, saving deposits in post office, Time Deposits, government securities, credit etc

b. Explain the factors affecting velocity of circulation of money.

Ans: Meaning of velocity of circulation of money and factors determining transaction velocity and income velocity- like volume of production and trade, institutional arrangements, changes in price level, regularity and certainty of income receipts etc

c. Explain the Cambridge Cash Balances approach to quantity theory of money.

Ans: Introduction, to give equation  $M_d = kPY$ , assumptions, explanation of equation with example and diagram, criticisms

**Q.2 Attempt any two of the following:**

**20**

a. Explain the transactions and speculative motives to demand for money.

Ans: To explain Keynesian motives for holding money-  $L_t$  and  $L_s$  with equation and diagram

b. Write note on- Interest rate as cost of holding money

Ans: Speculative demand for money is interest elastic.  $P = R/m * N$

There is inverse relationship between market rate of interest and market prices of the securities. People do not hold cash when rate of interest is high- to give reasons.  $L_2 = f(r)$ , to explain with the help of diagram.

c. Explain the derivation of LM curve.

Ans: Along the LM curve the demand for money is equal to the supply of money. To explain with diagram money market equilibrium by derivation of LM curve.

**Q.3 Attempt any two of the following:**

**20**

a. Explain Marginal Propensity to Save (MPS) with the help of numerical example.

Ans: Meaning,  $MPS = \Delta S / \Delta Y$ , to explain the concept with the help of numerical example and diagram.

b. Explain shifts in the IS curve and factors responsible for it.

Ans: Changes in other factors that would shift the aggregate demand will shift the IS curve. Increase in autonomous spending will increase aggregate demand and hence will increase

2

income at the given rate of interest. Factors responsible for change in autonomous spending and therefore for shift in IS curve are- change in government spending, change in taxes, autonomous change in investment, transfer payments and change in wealth with people. To explain shift with the help of diagram.

c. Write note on – Animal spirits

Ans: Animal spirit- meaning, psychological factors that drive investors to take actions when faced with volatility in the capital market, Behavioural economists- psychological factors influence economic decisions, during uncertainty rational behavior alone cannot justify economic behaviour of consumers and investors.

**Q.4 Attempt any two of the following:**

**20**

a. Explain the determination of income and interest rate with the help of IS-LM equilibrium.

Ans: To explain goods market equilibrium and money market equilibrium with the help of diagram. To explain simultaneous equilibrium in the goods and money market with the help of IS-LM curves.

b. Explain the quantitative instruments of monetary policy.

Ans: Quantitative instruments – Bank rate, Open market operations and Variable Reserve Requirements- CRR and SLR, to explain meaning and working of the instruments.

c. Discuss the effectiveness of fiscal policy.

Ans: To give meaning and effectiveness- like-practical difficulties, forecasting difficulties, time lags, political influences which work as limitations.

**Q.5 Attempt any two of the following:**

**20**

a. Components of high powered money

Ans: Meaning of high powered money and its components-  $H=C+R$ , where H= High powered money, C= currency and R= reserve money. To explain components of reserve money.

b. Shifts in the LM curve

Ans: Introduction, to explain with diagram shifts in the LM curve due to i. changes in the money supply and ii. shifts in the money demand function.

c. Savings function

Ans:  $S=f(Y)$  to give numerical example and to explain with diagram

d. Effectiveness of monetary policy

Ans: Meaning of monetary policy and its effectiveness.

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