SHIVAJI COLLEGE, UNIVERSITY OF DELHI

DEPARTMENT OF ECONOMICS

INTERNAL TEST (Academic Year 2023-24)

Name of the Course: B.A.(H) Semester: 2

Name of the Paper: GE Principles of Macroeconomics I Faculty Name: Manisha Jayant

Maximum Marks: 12

Date of Test 1: 15.04.2024

Attempt both questions. All questions carry equal marks.

Q1.

(i) Explain the concept of budget surplus. (Diagram is required)

(ii) Suppose government decides to reduce transfer payments but to increase government purchases of goods and services by an equal amount (i.e. $\Delta G = -\Delta TR$).

(a) Would you expect equilibrium income to rise or fall as a result of this change? If so, why? Check your answer with the following numerical example; suppose that, initially, C= 0.8, t= 0.25 and Y0 = 600. Now let ΔG=10 and ΔTR= -10.

(b)Find the change in equilibrium income, Δ Y0

Q2.

(i) Explain the concept of automatic stabilizer.

(ii) Explain why real output increases when both taxes and government purchases increased by the same amount.

Date of Test 2: 04.05.2024

Attempt both questions. All questions carry equal marks.

Q1. Define net export function. An increase in marginal propensity to import reduces the equilibrium income in an open economy while an increase in autonomous export increases the equilibrium income. Explain with the help of a diagram.

Q2.

(i) Suppose that money demand is given by -

Md = \$Y (0.25 – i) Where \$Y is 100.

Also, suppose that the supply of money is \$20.

(a) What is the equilibrium interest rate?

(b) If the federal reserve bank wants to increase i by 10% points at what level should it set the supply of money?

(ii) Explain the concept of money multiplier.