

SHIVAJI COLLEGE, UNIVERSITY OF DELHI
DEPARTMENT OF ECONOMICS
Test (Academic Year 2023 – 2024)

Name of the Course : B.A.(H) Semester : 4
Name of the Paper : Intermediate Macroeconomics Faculty Name : Rahul
Maximum Marks : 20

Attempt any of the two parts (A or B)

PART (A)

Ques 1A) Why are central banks unable to conduct an independent monetary policy under fixed exchange rates when there is perfect capital mobility? **(10 marks)**

Ques 2A) “A national loses control over money supply” under fixed exchange rate regime with perfect capital mobility (and constant prices), thus making monetary policy completely ineffective in changing output. However, fiscal policy is fully effective in such case.” Do you agree? Explain. **(10 marks)**

PART (B)

Ques 1B) What is the difference between expenditure switching and expenditure reducing policies under fixed exchange rate systems? Also give one reason why devaluation may not lead to an improvement in the trade balance. **(10 marks)**

Ques 2B) The economy contains current account deficit, inflation and underemployment. Explain the existence of such an economy using appropriate diagrams. **(10 marks)**

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