

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**B.A. ECONOMICS– II SEMESTER**

**SEMESTER EXAMINATION: APRIL 2020**

**ECA 2118: MACRO ECONOMICS**

**Time- 2 ½ hrs. Max Marks-70**

**This paper contains two printed pages and three parts**

**Part – A**

**I Answer any 10 of the following [10 x 3 = 30]**

1. Define Macro Economics.
2. What is circular flow of income?
3. What is Say’s Law of Market?
4. What is effective demand?
5. What is underemployment equilibrium?
6. What is Multiplier?
7. Mention the Fisher’s quantity theory of money.
8. What are the motives of liquidity preference?
9. Mention any three limitations of macroeconomics?
10. Describe Inflationary Gap?
11. What is Phillip’s curve?
12. Mention the phases of a trade cycle.

**PART-B**

**II Answer any 2 of the following. [2x 5 = 10]**

1. Discuss the significance of Macro Economics.
2. Explain the concept of consumption function.
3. What is cost-push inflation?

**PART C**

**III Answer any 2 of the following. [2 x 15 = 30]**

16) What is National Income? Explain the methods of measuring National Income.

17) Analyse the Keynesian theory of Employment.

18) Explain the important functions of a commercial bank.

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**Scheme of Valuation**

**I Answer any 10 of the following [10 x 3 = 30]**

1. **Define Macro Economics.**

Macro Economics is the study of the economy as a whole. In the words of K.E. Boulding, “Macro economics deals not with individual quantities as such, but with aggregates of these quantities; not with individual incomes, but with the national income; not with individual prices, but with the price level, not with individual outputs, but with the national output”. **(Or any other definition)**

1. **What is circular flow of income?**

A process in which the payment made comes back to the same sector in the form of receipts is called circular flow of income. (Explain – two sector, three sector and foreign sector briefly)

1. **What is Say’s Law of Market?**

It states that whatever be the level of output the income created in the course of producing that output would be sufficient to lift the goods produced. – ‘**Supply creates its own demand’**

1. **What is aggregate demand and aggregate supply function?**

Aggregate demand function is the various amounts of money, which the entrepreneur in an economy expects from the sale of their output at varying levels of employment. It refers to the receipts expected from the sale of output.

Aggregate Supply function is the various amounts of money, which the entrepreneur in an economy must receive from the sale of their output at varying levels of employment. It refers to the cost which the entrepreneur must cover at varying levels of employment.

1. **What is underemployment equilibrium?**

Says law implies that aggregate demand at full employment will be sufficient to meet the supply resulting out of full employment. Keynes objects to this saying that it is unrealistic because the investment demand at the level of full employment in a capitalist economy will not be sufficient to fill the gap between level of income and level of consumption corresponding to full employment, since at a high level of employment and income propensity to consume is relatively low. As a result of this there is a gap between aggregate supply and aggregate demand at full employment. Hence the typical equilibrium level of employment in a capitalist economy is often at a less than full employment level. Keynes calls it underemployment equilibrium.

1. **What is Multiplier?**

The multiplier shows the relationship between initial investment and the ultimate increase in income. Symbolically K = **Δ** Y / **Δ** I.

1. **Write Keynes’ The Real Balance Quantity Equation.**

Since Keynes regarded Pigou’s equation as defective, he put forward The Real Balance Quantity Equation. n = pk or p=n/K. where

n= total supply of money in circulation, p= general price level, k= total quantity of consumption units which people decide to keep in the form of cash, Keynes considers *k* as the real balance

He further enlarged as n=p (k+rk’) or p=n/k+rk’

1. **What are the motives of liquidity preference?**
2. Transactions motive 2. Precautionary motive 3. Speculative motive (Explain)
3. **What are IS-LM curves?**

The IS curve represents all combinations of income(Y) and the real interest rate (r) such that the market for goods and services is in equilibrium. LM refers to the liquidity of money. As interest rate increases, the demand for money decreases. IS-Lm stands for investment saving – liquidity preference money supply.

The former shows the equilibrium in the real sector while the latter represents the equilibrium in the monetary sector. The point of intersection of the two gives us the equilibrium rate of interest.

1. **What is Inflationary Gap?**

Inflationary gap refers to ‘an excess of anticipated expenditure over available output at base prices. Or it is the difference between the current level of real GDP and the anticipated GDP that would be experienced if an economy is at full employment. (Graph)

1. **What is Phillip’s curve?**

It traces the relationship between the rate of money wage increase and the rate of unemployment in the economy.

The concept was developed by A.W. Phillips stating that inflation and unemployment have a stable and inverse relationship. (Graph)

1. **Mention** the phases of a trade cycle.
2. Depression 2. Recovery 3. Prosperity 4. Boom 5. Recession (Graph)

**PART-B**

**II Answer any 2 of the following. [2x 5 = 10]**

1. Discuss the significance of Macro Economics.

1) Knowledge of functioning of an economy 2) Necessity of aggregation

3) Formulation of economic policies 4) Economic Planning

5) Solutions to economic fluctuations

6) Useful for the purpose of building and developing Micro economic theories.

7) Provides information for international comparisons

1. **Explain the concept of consumption function.**

Consumption Function expresses the relationship between two aggregates, namely, total consumption expenditure and the gross National income. Consumption Function can be represented as C = f (Y) (1)

The Consumption Function has two technical attributes: (2+2)

**(i) The Average Propensity to consume (APC)** refers to the proportion of total income spent on consumption. APC may be defined as the ratio of consumption expenditure to any particular level of income. We can find APC by dividing the consumption (C) by income(Y).

APC = 

1. **Marginal propensity to Consume (MPC)** refers to the proportion of additional income spent on consumption.
2. **Write the effects of inflation on redistribution of income and wealth.**

Different classes will be affected differently.

* Effects on Debtors and creditors
* wage and salary earners
* fixed income groups
* entrepreneurs
* investors
* farmers

**PART C**

**III Answer any 2 of the following. [2 x 15 = 30]**

**16) What is National Income? Explain the methods of measuring National Income.**

National Income refers to the total money value of all the final goods and services produced in a country during a given period of time, usually a year, counted without duplication. (2)

**There are three methods of measuring or calculating the National Income of a Country:**

1.The Product Method, 2. The Income Method and, 3. Expenditure Method.4. social accounting Method **(4+4+4+1)**

**The Product Method or Output Method or Inventory Method:** It consists in obtaining the net value of all goods and services produced during a given year and adding them up. The total obtained is called the Final Products Total. Under Output Method the National Income is calculated as follows: Symbolically, **Y = (C+I+G – D) + (S -T) + (X-M) + (R-P).**

**The Income Method:** The National Income by this method is obtained by adding up the incomes of all the factors of production in the form of rent, wages, interest and profit. Symbolically, **Y = (r + w + i + p) + (X-M) + (R-P)** Where, r refers to rent, w refers to wages, i refers to Interest, p refers to profit, X refers to exports, M refers to imports, R refers to foreign receipts and P refers to foreign payments.

**The Expenditure Method:** This method arrives at National Income by adding up all the expenditure made on goods and services during a year. We can get national income by adding up all consumption expenditure and investment expenditure made by individuals as well as the government of a country during a year.

**Social Accounting Method:**. In this method the transactions among various sectors are recorded first and next, their inter relationship is traced. Under the scheme of social accounting, the economy is divided into the following five sectors: 1). Firms 2). Households 3). Government sector 4). Rest of the world sector 5). Capital sector.

**17) Analyse the Keynesian theory of Employment**.

Keynes rejects the assumption of automatic mechanism. In the opinion of Keynes, effective demand decides the levels of employment, output and income in all economies.

By raising the effective demand unemployment can be solved. The equilibrium of the economy attained through effective demand is called underemployment equilibrium. Hence unemployment and over production, both are the possibilities, and to solve these problems effective demand should be increased, according to Keynes.

The concept of **“Effective Demand”** is the central core of Keynes’ Economics. Effective Demand is the sole determinant of employment.

**Aggregate Demand Function (A.D.F.)** is a schedule of the various amounts of money which is entrepreneurs in an economy expect from the sale of their output at varying levels of employment. It refers to the receipts which the entrepreneurs taken together expect from the sale of output.

**Aggregate Supply Function (A.S.F.)** is a schedule of the various amounts of money which the entrepreneurs in an economy must receive from the sale of output at varying levels of employment. It refers to the costs which the entrepreneurs must cover at varying levels of employment.

**The Theory of Employment, Income & Effective Demand - (Flow Chart)**

Aggregate demand Function Aggregate Supply Function

Consumption demand Investment demand Government expenditure

Size of Propensity Marginal Rate of

Income to consume Efficiency Interest

of capital

Supply price of Prospective yield Liquidity Supply of

Capital assets from capital Preference money in the

assets of the public economy

Transactions Precautionary Speculative

motive motive motive

**18) Examine the important functions of a modern commercial bank.**

Function of commercial bank: (2 marks each)

1. Acceptance of deposits
2. Advancing of Loans
3. Investments of funds
4. Promote use of cheques
5. Agency functions
6. Credit creation
7. Purchase and sale of foreign exchange
8. Financing internal and foreign trade
9. Fulfilment of socioeconomic objectives.