[This question paper contains 2 printed pages.]

Sr. No. of Question Paper : 2565 **Roll No............**

Unique Paper Code : 101333

Name of the Course : Bachelor of Business Studies 2013

Name of the Paper : Business Economics – II

Semester : III

Duration : 3 Hours

Maximum Marks : 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. **All** questions are compulsory.

1. (i) Suppose govt spending increases by 10 units and this increase is financed by a 10 unit increase in taxes. What will happen to equilibrium income as a result of these two policy actions ?

(ii) How does an increase in rate of interest affect aggregate consumption ?

(iii) What is the outcome in goods market when

(a) Planned investment is greater than realised investment

(b) Planned investment is less than realised investment

(iv) How does an increase in MEC affect the IS curve ?

(v) What is the shape of LM curve if demand for money does not depend on interest rate ? (5×3=15)

2. (a) "In a classical economy, a rise in investment expenditure will not lead to a change in output". Explain with the help of diagrams. (8)

OR

"With fixed techniques of production and fixed capital stock, output in the short run becomes a function of employment. Money supply only sets the price level for this output". Discuss using diagrams to illustrate your answer. (8)

P.T.O.

(b) Policy makers can only exploit the inflation unemployment trade off in the short run. Discuss. (7)

3. (a) Suppose the Government decides to build three new over-bridges in Delhi and a new airport in Hyderabad. What impact will these programs have on the aggregate demand curve which is a negative function of price level. (8)

OR

How does a firm determine its optimum stock of capital. Why does this decline with an increase in the rate of interest ? (8)

(b) In a Keynesian economy with a perfectly elastic aggregate supply curve an increase in government spending reduces investment. Explain using IS-LM diagrams. (7)

4. (a) What is the Mundell Fleming model ? What will be the outcome of an expansionary monetary policy when the exchange rates are flexible and there is imperfect capital mobility ? (7)

(b) Suppose in an economy :

Consumption (C) = 220 + 0.75 Y
Investment (I) = 100
Government Expenditure (G) = 100
Tax (T) = 20 + 0.2 Y
Transfer Payments (Tr) = 40
Exports (X) = 30
Imports (M) = 15 + 0.1 Y

(i) Find equilibrium levels of Y and C.

(ii) By how much does Y change when Investment increases by 100 units.

(iii) What is the increase in G required to ensure that the economy reaches full employment level of income of 900 units. (2+3+3)

5. Write short notes on any **three** of the following :

(a) Liquidity trap

(b) Keynesian Theory of Interest

(c) Factors responsible for price rise in India

(d) Factors affecting the position of BP curve

(e) Factors responsible for recent Rupee depreciation (3×5)

(400)

Paper. 303 2012

[This question paper contains 2 printed pages.]

Sr. No. of Question Paper : 1140 **Roll No............**

Unique Paper Code	: 101333
Name of the Paper	: Business Economics – II
Name of the Course	: Bachelor of Business Studies
Semester	: III (New Course)
Duration	: 3 Hours
Maximum Marks	: 75

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Answer **five** questions in all.
3. Question **1** is compulsory.
4. Attempt any **four** in addition to Question **1**.

1. (a) What factors shift the Aggregate Demand Curve in a closed economy ?

   (b) What is the effect of an increase in the use of credit cards on the LM curve ?

   (c) The effect of a rupee decrease in taxes is smaller in magnitude than the effect of a rupee increase in govt. spending. True or False. Explain why.

   (d) The effect of a change in autonomous expenditure on level of income is more in a closed economy than in an open one. True or False. Explain

   (e) Under what conditions is the Balance of Payments curve horizontal ? (15)

2. What is the impact of increase in government spending on the rate of interest in an economy where aggregate supply is perfectly inelastic. What effect will this have on the following :

   (a) output (b) employment and (c) price level (15)

3. What is the effect of an increase in autonomous savings on equilibrium income and rate of interest. Discuss with diagrams using the IS-LM framework. (15)

P.T.O.

4. (a) Derive the LM curve and explain the points that lie above and below it. What leads to a change in the position and slope of the LM curve ? (8)

(b) The effect of a fiscal policy action is smaller in magnitude when the price level is variable than when the price level is fixed. Discuss using IS – LM framework. (7)

5. (a) $C = 100 + 0.6Y_d$

$I = 220 - 10\,i$

$T = 200$

$G = 200$

$M^d = 0.2Y - 5\,i$

$M^s = 200$

(i) Find the equation of IS curve.

(ii) Find the equilibrium income and rate of interest

(iii) What is the effect of a change in G from 200 to 300.

(iv) What is the change required in I to increase Y to 1000. (2,2,3,3)

(b) What is the effect of rate of interest on consumption ? (5)

$C = a + by$

6. (a) Consider the effect of a decrease in lump sum tax on an economy with imperfect capital mobility under :

(i) Fixed Exchange rate system and

(ii) Flexible Exchange rate system (8)

(b) "There is no trade off between unemployment and inflation in the long run." Discuss. (7)

7. Write short notes on ***any three*** :

(i) Marginal Efficiency of Capital

(ii) Anti Inflationary policies of the Indian Government

(iii) Trends in India's BoP since 1991

(iv) Liquidity Trap (3x5=15)

[This question paper contains 4 printed pages.]

9392 Your Roll No. ....

BBS / III Sem. – 2011

BUSINESS STUDIES – Paper 303

Business Economics

Time : 3 hours *Maximum Marks : 75*

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt **all** *questions.*

1. (a) Equilibrium income increases by much more when government spending increases by one unit than when taxes decrease by one unit. True or false, Explain.

(b) What is the shape of IS curve when investment does not depend on interest rate ?

(c) What will happen to the aggregate demand curve if a cut back in government spending is matched by an increase in money supply ?

(d) The effect of an increase in investment on the level of income will be more in an economy having higher propensity to consume. True or false, explain.

(e) A relative rise in domestic interest rates will cause an appreciation of home currency. True or false, explain. (15)

P.T.O.

2. (a) Expansionary fiscal policy of the government has a larger impact on output when the interest elasticity of money demand is high. Explain using IS and LM curves. (7)

(b) Explain how interest rates stabilize aggregate demand in face of autonomous changes in component of aggregate demand such as investment or government spending when the economy is operating at full employment level of output ? (8)

OR

(a) The effect of an expansionary fiscal policy is smaller in magnitude when price level is variable than when price level is fixed. Explain with diagrams. (8)

(b) In an economy operating at full employment level of output the relationship between money supply and prices is direct and proportional. Explain with diagrams. (7)

3. (a) Under imperfect capital mobility monetary policy is a more powerful instrument of growth in a flexible exchange rate system than in a fixed rate system. Discuss with diagrams. (8)

(b) Discuss briefly the factors on demand and supply side that are responsible for inflation in India. (7)

OR

(a) Within the Mundell Fleming model assuming imperfect capital mobility analyse the effect of a decrease in taxes by the govt under fixed and flexible exchange rate system. (8)

(b) An attempt to reduce unemployment in the long run by increasing government expenditure creates a serious policy dilemma for the government. Discuss. (7)

4. For an economy with following specifications

Consumption	$C = 800 + 0.8\,Y_d$
Investment	$I = 520$
Tax	$T = -100 + 0.25\,Y$
Govt Expenditure	$G = 500$
Export	$X = 200$
Import	$M = 0.2\,Y$

(i) Calculate the equilibrium level of income and investment multiplier.

(ii) What happens to equilibrium level of income if

(a) subsidies are reduced by 100

(b) exports are increased by 200

(iii) How does balance of trade change in (ii) a and (ii) b ? (3,6,6)

OR

(a) An economy is in equilibrium with income of ₹ 100 crores and marginal propensity equal to 0.2. If government wants to raise the level of income to ₹ 110 crores what changes would you recommend in

(i) government spending

(ii) lump sum income tax

(b) If aggregate income increases from ₹ 80 lakhs to ₹ 400 lakhs due to an increase in investment by ₹ 32 lakhs, what is the value of marginal propensity to save and marginal propensity to consume.

(c) Calculate the equilibrium level of income in an economy where

Autonomous consumption	= ₹ 80
Marginal propensity to save	= 0.2
Autonomous investment	= ₹ 80
Induced investment	= ₹ 20

(6,6,3)

5. Write short notes on any **three** of the following :

(i) Marginal efficiency of capital

(ii) India's BOP situation since 1991

(iii) Balanced budget multiplier

(iv) Effect of distribution of income on consumption

(v) Keynesian theory of demand for money (15)