

[This question paper contains 2 printed pages.]

**Sr. No. of Question Paper : 2551**

**Roll No.....**

Unique Paper Code : 101301

Name of the Course : Bachelor of Financial and Investment Analysis 2013

Name of the Paper : Economic Environment and policy

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. Attempt **any five** questions.

1. (a) Explain the income approach of calculating national income ? In your view which one is the real indicator of welfare, GDP or GNP ? Give reasons for your answer ? (8)
- (b) Money is neutral in its effect on real variables. Explain with the help of diagrams. (7)
2. (a) What is investment multiplier ? Explain the process by which an economy responds to a change in autonomous investment. (8)
- (b) What is the "crowding out" effect ? What is its effect on the size of the multiplier ? (7)
3. (a) Compare and contrast monetary and fiscal policies as tools for controlling output and inflation ? (7)
- (b) Use Keynesian theory to predict the impact of following on equilibrium output and rate of interest : (8)
  - (i) A decrease in taxes
  - (ii) An equal increase in government expenditure and taxes.

*P.T.O.*

4. Consider an economy where

$$\text{Consumption, } C = 50 + 0.9(Y-T)$$

$$\text{Tax Revenue, } T = 100$$

$$\text{Investment, } I = 150 - 5i$$

$$\text{Government Expenditure, } G = 100$$

$$\text{Money demand, } L = 0.2Y - 10i$$

$$\text{Real money supply, } M/P = 100$$

$$\text{Exports, } X = 20$$

$$\text{Imports, } M = 10 + 0.1Y$$

Where  $Y$  = Income,  $i$  = rate of interest figures in Rs. Crores

(a) Obtain the IS and LM equations of the economy.

(b) Find out equilibrium income and rate of interest.

(c) Find the balance of trade.

(5,5,5)

5. (a) Why is the Philips curve downward sloping? What is the policy significance of the downward slope? Does it hold in the long run also? (8)

(b) What is the effect of an expansionary monetary policy in an open economy with flexible exchange rate and imperfect mobility? (7)

6. Write Short notes on any **three** of the following :

(a) Marginal Efficiency of Capital

(b) Liquidity preference theory of interest

(c) Cost push inflation

(d) Quantitative theory of money

(3×5=15)

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Sr. No. of Question Paper : 1222

Roll No.....

Unique Paper Code : 101301

Name of the Paper : Economic Environment and Policy

Name of the Course : BFIA

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. Attempt any **FIVE** questions.
  1. (a) What role does money have in determining real output, employment, price level and interest rate in an economy which is operating at full employment level of output? Explain with diagrams. (10)
  - (b) How do the following affect the IS curve : (5)
    - (i) Increase in tax rate
    - (ii) Increase in autonomous investment
2. (a) Explain the phenomenon of stagflation. Do you think Indian economy is heading towards stagflation? Give reasons for your answers. (7)
- (b) Explain the trade off between inflation and unemployment. What are the policy implications of downward sloping Phillips Curve? (8)
3. (a) Use the IS-LM model to analyze the effect of increase in Government spending financed by an equal amount of increase in taxes. (7)
- (b) The major macro aggregates for an economy are given as follows :
 

Consumption,  $C = 60 + 0.8 Y_d$  ( $Y_d$  = disposable income)

Investment,  $I = 100 - 5i$

P.T.O.

% interest rate,  $i = 6\%$

Government expenditure,  $G = 76$

Lump-sum Tax,  $T = 15$

Transfer payments,  $TR = 60$

Exports,  $X = 70$

Imports,  $M = 12 + 0.2 Y$

- (i) Derive the IS curve from the above data. (3)
  - (ii) Calculate equilibrium level of income. (3)
  - (iii) Calculate foreign trade multiplier. (2)
4. (a) Assume that capital is perfectly mobile, price level is fixed and exchange rate is flexible. What is the effect of an increase in Govt. spending on equilibrium level of output and interest rate? (8)
- (b) What will be the effect of opening of FDI in multi-brand retail on employment and growth of the economy? Give reasons to support your answer. (7)
5. (a) The effect of fiscal policy action is smaller in magnitude when price level is variable than when price level is fixed. Discuss with diagrams. (10)
- (b) If an economy is facing a situation of liquidity trap, what can the Government do to help the economy? (5)
6. Write short notes on **any three** of the following : (15)
- (a) Marginal Efficiency of Investment
  - (b) Factors responsible for the shift of LM curve
  - (c) Demand pull inflation
  - (d) Effectiveness of multiplier in developing economies

[This question paper contains 3 printed pages.]

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Your Roll No. ....

**BFIA / III Sem. – 2011**

**BACHELOR OF FINANCIAL AND INVESTMENT  
ANALYSIS – Paper 301**

(Economic Environment & Policy)

Time : 3 hours

Maximum Marks : 75

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

*Attempt five questions in all.*

1. (a) Explain the value added method of calculating national income? (6)
- (b) An increase in money supply does not affect output but only leads to an increase in prices when economy is operating at full employment level of output? Explain with diagrams. (9)
2. (a) What is Liquidity trap? (3)
- (b) What factors affect the slope of IS curve? (5)

P.T.O.

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- (c) Fiscal policy is most effective when interest elasticity of money demand is high. Discuss using the IS & LM diagrams. (7)
3. (a) What is the relationship between inflation and unemployment when inflation is fully anticipated? Explain. (7)
- (b) A company is considering a two year investment project costing ₹100 crores. This project is expected to yield no returns in the first year and ₹144 crores in second year. If the market rate of interest is 20% would you recommend the company to take up this project? Why, explain. (8)
4. Explain briefly any **three** of the following:
- (a) Crowding out effect
- (b) Loanable funds theory of interest
- (c) Limitations of multiplier
- (d) Consequences of Inflation (15)
5. Consider an economy where
- |             |                      |
|-------------|----------------------|
| Consumption | $C = 150 + 0.75 Y_d$ |
| Investment  | $I = 100$            |

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Govt. Expenditure	$G = 115$
Tax	$T = 20 + 0.2 Y$
Transfer Payment	$TR = 40$
Export	$X = 35$
Import	$M = 15 + 0.1 Y$

Calculate

- (a) Equilibrium level of income.
- (b) What is the change in income if investment increases by ₹50.
- (c) The change in trade balance due to increase in investment in (b).
- (d) What fiscal policy changes will increase income to ₹1200? (2,3,5,5)
6. (a) What is the BP curve? Why is it upward sloping?
- (b) Discuss with diagrams the effect of an expansionary fiscal policy on BOP under imperfect capital mobility and flexible exchange rate system?
- (c) What is the effect of devaluation on the Aggregate demand curve in an open economy? (3,7,5)