JAYPEE UNIVERSITY OF INFORMATION TECHNOLOGY, WAKNAGHAT

TEST -3 EXAMINATION- 2024

BBA- II Semester

COURSE CODE(CREDITS): 23BB1HS212 (4) MAX. MARKS: 35

COURSE NAME: MACROECONOMICS

COURSE INSTRUCTORS: Bilal Khan MAX. TIME: 2 Hours

Note: (a) All questions are compulsory.

(b) Marks are indicated against each question in square brackets.

(c) The candidate is allowed to make suitable numeric assumptions wherever required for solving problems.

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1. The following equations describe an economy: (CO3) [6]

Consumption (C) = 100 + 0.8Yd

Investment (I) = 150 – 6i

Government Expenditure (G) = 100

Income tax (T) = 0.25 Y

Real demand for money (Md) = 0.2Y – 2i

Nominal money supply (Ms) = 300

Price level (P) = 2

(a) Derive the IS and LM curves and compute the equilibrium level of income (Y) and interest rate (i).

(b) Suppose the economy opens up with the following exports (X) and import (M) equations:

X = 100

M = 20 + 0.1Y

Find the new level of equilibrium income and interest rate if all other equations remain unchanged.

(c) Find the foreign trade multiplier and balance of trade.

2. Consider the following IS-LM model: (CO3) [4]

$C=200+0.25Yd$

$I=150+0.25Y-1000i$

$G=250$

$T=200$

Real money demand$=2Y-8000i$

Real money supply$=1600$

(a) Find the equilibrium income and interest rate.

(b) If real money supply increases to 1840, how is equilibrium income and interest rate affected?

3. Discuss the relationship between inflation and unemployment in the context of Phillips curve in the short run. What were the reasons for the breakdown of Phillips curve in the early 1980's? (CO4) [6]

4. How is simultaneous equilibrium determined in the goods market and money market in IS-LM model? Also explain, how IS-LM model helps in the determination of aggregate demand. (CO4) [7]

5. In the context of Mundell-Fleming model, describe the effects of expansionary fiscal and monetary policy in a small open economy with fixed exchange rate. (CO4) [6]

6. Write short notes on: (CO5) [6]

(a) Flexible exchange rate

(b) Surplus and deficit in balance of payments

(c) Futures transactions