

**GUJARAT NATIONAL LAW UNIVERSITY
SILVASSA CAMPUS**

**Course: Macroeconomics: Policy and Practice
Semester- II (Batch: 2024-29)**

End Semester Examination: April – May 2025

Date: 28th April, 2025

Duration: 3 hours

Max. Marks: 50

Instructions:

- Read the questions properly and write the answers in the given answer book.
- Do not write anything on the question paper.
- The respective marks for each question are indicated in-line.
- Indicate correct question numbers in front of the answer.
- No questions or clarification can be sought during the exam period, answer as it is, giving reason, if any.
- Word Limit: 600 to 750 words for 10 Marks

ATTEMPT ANY FIVE OUT OF SIX QUESTIONS

Marks

- Q.1 Describe the circular flow of national income in five-sector economy with the help of types of withdrawals (or leakage) and injections. (10)
- Q.2 The Great Depression was a crucial time when the classical theory was put to test and it failed. The classical school could not provide any solutions to the problems that the world faced at that time. Prof. J M Keynes had criticized the classical theories wage price flexibility and also criticized the basic preposition of Say's law. His first major work in economics got published in 1936 'The General Theory of Employment, Interest and Money'. Keynesian model assumes that the aggregate supply curve is perfectly elastic up to the full employment level of output after which it becomes perfectly inelastic. Hence, the price level, until the full employment level, will be determined solely by aggregate demand (or aggregate spending). Keynesian school also believes that an investment is autonomous, and in the close economy, the government role is limited therefore aggregate demand function will depend mainly on the consumption function. In the light of Keynesian approach **explain (a) consumption function and (b) saving as a counterpart of the consumption function.** (10)
- Q.3 The IS-LM model which is the foundation of the short-run macroeconomics, was first introduced by prof. J.R. Hicks in his famous article 'Mr. Keynes and the Classics' in 1973. The IS curve represents the goods market equilibrium, investment (I) equals saving (S), while LM curve represents money market equilibrium, demand for money (L) equals supply of money (M). The shifts in the IS curve occur due to a shift in the investment function or the saving function whereas the shift in the LM curve occur due to a shift in the transactions demand for money, speculative demand for money or the money supply function. **Examine the effects of a simultaneous shift in both the IS and LM curves with diagram.** (10)
- Q.4 Discuss the efficacy of fiscal policy under perfect capital mobility and fixed exchange rate system of Mundell-Fleming model with the help of an appropriate diagram. (10)

- Q.5 In the real world, full employment is just not possible. All economies experience some unemployment accompanied by low standards of living, hardships, psychological distress and mental agony. Side by side with unemployment, most countries are also plagued with inflation and its related consequences. There are several types of unemployment prevailing in the world, out of all the natural rate of unemployment and frictional rate of unemployment, are very common. The natural rate of unemployment can be reduced through policies aimed at reducing the unemployment benefits and minimum wages and by giving incentives to workers. Whereas frictional unemployment can be reduced through collecting information on the worker's profile to match jobs and workers and through retraining programmes. The Phillips' curve shows an inverse relationship or trade-off between the rate of unemployment and the rate of increase in money wage or wage inflation. In other words, the higher the rate of unemployment, the lower is the rate of wage inflation. With the help of Phillip curve, **examine the trade-off between inflation and unemployment and discuss the Prof. Friedman's view with adaptive expectations and rational expectations (Long run Phillips curve).** (10)
- Q.6 Discuss the comparison between Keynes school of thoughts and Classical school of thoughts. (10)
