B-JFT-M-HFB

GENERAL ECONOMICS – II

Time Allowed : Three Hours *Maximum Marks : 200*

INSTRUCTIONS

*The question paper consists of three Sections.
Candidates should attempt EIGHT parts of the
question in Section I, TEN questions from
Section II and TWO questions from Section III.*

*Candidates should attempt questions as per the
instructions given in each Section.*

*The number of marks carried by each question
is indicated in each Section.*

Answers must be written only in ENGLISH.

*Any assumptions made for answering a
question must be mentioned clearly.*

*Whenever a question is attempted, all its
parts/sub-parts must be completed before
moving on to the next question.*

SECTION I

*Candidate should attempt any **eight** of the following parts in about 50 words each.*   5×8=40

1. (a) What were the mercantilist's views on trade ? How does their concept of national wealth differ from today's view ?

    (b) "Because corporations do not actually raise any funds in secondary markets, they are less important to the economy than the primary markets." Comment.

    (c) Explain why the tax multiplier is negative and is smaller in absolute value than the government expenditure multiplier.

    (d) Distinguish between Convergent series of investment and Divergent series of investment.

    (e) Distinguish between economic growth and economic development. Identify any four indicators of economic development.

    (f) Differentiate between developed and underdeveloped countries on the basis of impact of the shocks and stimulants.

    (g) Why is Ricardo's explanation of the law of comparative advantage perceived as unacceptable ? What acceptable theory can be used to explain the law ?

    (h) What is 'natural' about the natural rate of unemployment ? Why might this differ across countries ?

    (i) Distinguish between development via excess capacity of SOC and development via shortage of SOC.

SECTION II

*Answer any **ten** of the following questions in about 150 words each.*   *12×10=120*

2.   For a developing country to grow, it needs capital. The major source of capital in most countries is domestic saving. But the goal of stimulating domestic saving could be in conflict with government policies aimed at reducing inequality in the distribution of income. Comment on this trade-off between equity and growth.

3.   (a)   When there is a decline in interest rate, which type of bond will the investor prefer to hold – long term bonds or short term bonds ? Why so ? Which type of bond has greater interest rate risk ?

      (b)   Is deficit necessarily bad and surplus necessarily good in balance of payments ? Comment.

4.   What is the difference between a nominal tariff and an effective tariff ? What is the usefulness of the concept of effective protection ?

5.   What is an Option contract ? How is it different from the Future contract ? Explain the merits and demerits of both the contracts.

6.   Explain why Kaldor model of growth is viable only if marginal propensity to save from profits exceeds that from wages.

7. What factors are the major determinants of output and employment in the classical system ? What role does aggregate demand have in determining output and employment ?

8. Omission of human capital and knowledge capital could be the most important sources of bias in the case of the 'Leontief Paradox'. Explain.

9. Explain the concepts of 'Trade Diversion' and 'Trade Creation' in the context of a 'Custom Union'.

10. Explain the different forces leading to the end of capitalism in the Schumpeter model of economic development.

11. What are the assumptions in the Keynesian Multiplier Theory ? Examine whether it is feasible to apply this theory to an underdeveloped economy.

12. What is the efficient market hypothesis ? Highlight the salient features of its three versions.

SECTION III

*Answer any **two** of the following questions in about 250 words each.*   *20×2=40*

13. Distinguish between balanced growth and unbalanced growth strategies with illustrations. Which growth strategy is applicable for Indian economy ? Substantiate your answer describing the theory and giving valid justifications.

14. "A country is poor because it is poor" implies that a circular constellation of forces tend to act and react upon one another in such a way as to keep a poor country in a state of poverty." Explain the theory behind the statement with illustrations.

15. What are the reasons for holding money in the Keynesian system ? Define and explain the speculative demand for money and liquidity trap. Explain the relation between speculative demand for money and the interest rate.