GENERAL ECONOMICS

PAPER—II

Time Allowed : Three Hours

Maximum Marks : 200

QUESTION PAPER SPECIFIC INSTRUCTIONS

Please read each of the following instructions carefully before attempting questions

There are **SIXTEEN** questions divided under **THREE** Sections.

The **ONLY** question in Section—A is **compulsory**.

In Section—B, **SIX** out of **NINE** questions are to be attempted.

In Section—C, **FOUR** out of **SIX** questions are to be attempted.

Candidates should attempt questions/parts as per the instructions given in the Sections.

The number of marks carried by a question/part is indicated against it.

Candidates are required to write clear, legible and concise answers and to adhere to word limits, wherever indicated. Failure to adhere to word limits may be penalized.

Attempts of questions shall be counted in sequential order. Unless struck off, attempt of a question shall be counted even if attempted partly.

Any page or portion of the page left blank in the Question-cum-Answer (QCA) Booklet must be clearly struck off.

Answers must be written in **ENGLISH** only.

SECTION—A

(Compulsory Section)

1. Answer the following questions in about *100* words each : 5×6=30

(a) Trace the role of Quesnay in the formulation of intersectoral flows in an economy as it stands today.

(b) "Inflation is always and everywhere a monetary phenomenon." Explain briefly the arguments of Friedman.

(c) Briefly explain Rosenstein-Rodan's Big Push theory.

(d) Specify the sources of gains from trade when production is characterised by increasing cost conditions.

(e) Differentiate among fixed, freely floating and managed floating exchange rates.

(f) Trace the major developments in the various rounds of negotiations from GATT to WTO.

SECTION—B

Answer any *six* out of the following *nine* questions in about *200* words each : 15×6=90

2. Bring out the equivalence between national income measured by value-added method and final expenditure method.

3. Analyse how the supply and demand for loanable funds and equilibrium in the financial market is related to equilibrium in the goods market in a closed economy.

4. Briefly explain the US subprime crisis (2007–2010). Explain whether the subprime crisis was a 'plain vanilla' financial crisis.

5. Explain the basic endogenous growth model which emphasises the role of knowledge in economic growth.

6. Discuss the evolution of the concept of human development since 1990 to its present state.

7. Critically analyse the role of Regional Trade Agreements in the creation and diversion of trade.

8. Examine the effect of an import tariff on equilibrium output and balance of trade under a fixed exchange rate using a short-run macroeconomic framework.

9. Discuss the role of the United Nations and its agencies in addressing global environmental concerns.

10. Discuss the concepts of moral hazard and adverse selection in the context of insurance sector.

SECTION—C

Answer any *four* out of the following *six* questions in about *300* words each : 20×4=80

11. Consider a closed economy with the following specifications :

$$C = 700 + 0{\cdot}7Y_D$$
$$Y_D = Y - T$$
$$T = 150$$
$$I = 600 - 20r, \quad G = 500$$
$$L = 0{\cdot}2Y - 50r$$
$$\frac{\overline{M}}{\overline{P}} = 400$$

where

C = Consumption

Y_D = Disposable income

Y = National income or output

T = Lump sum tax

I = Investment

G = Government expenditure

L = Demand for liquidity

r = Real rate of interest in %

$\frac{\overline{M}}{\overline{P}}$ = Real money supply

(a) Derive the IS equation.

(b) Derive the LM equation.

(c) Find the equilibrium output and interest rate.

(d) Present your results in a diagram.

(e) Identify the crowding out effect of an increase in G to 1000. 4+3+5+3+5=20

12. Analyse the trade-off between unemployment and inflation with reference to the Phillips curve under adaptive expectations. Derive the aggregate supply curve from the Phillips curve. 10+10=20

13. Compare and contrast the utilitarian-welfarist approach with Sen's approach to socioeconomic and gender issues. 20

14. Define 'options'. Differentiate between the American and European options.

Suppose an investor buys a European call on a share for ₹ 4. The strike price (Kt) is ₹ 96 and the stock price (St) is ₹ 115. The expiration date is 4 months. Find whether the investor is making a profit or a loss. Draw a diagram. 5+3+12=20

15. Analyse the efficacy of monetary and fiscal policy with high but not perfect capital mobility in the 'IS-LM-BP' model under—

(a) fixed exchange rate;

(b) flexible exchange rate. 10+10=20

16. Discuss the role of the World Bank and its affiliates in facilitating economic development of developing countries. 20

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