

GENERAL ECONOMICS

Paper II

Time Allowed : Three Hours

Maximum Marks : 200

INSTRUCTIONS

Please read each of the following instructions carefully before attempting questions.

There are THIRTEEN questions divided under THREE sections.

The ONLY question in Section A is compulsory.

In Section B, SIX out of SEVEN questions are to be attempted.

In Section C, FOUR out of FIVE questions are to be attempted.

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

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

All parts and sub-parts of a question are to be attempted together in the answer book.

Attempts of questions shall be counted in chronological 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 answer book must be clearly struck off.

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.

Answers must be written in ENGLISH only.

Section – A

1. Answer the following parts of this question in about 100 words each : $6 \times 5 = 30$

- (a) What is the main difference between Mercantilists and Physiocrats with regard to the sources of wealth of a nation ?
- (b) State the major components of official foreign reserve assets.
- (c) List out the major conditions that must be satisfied for the take-off of an economy according to W. W. Rostow.
- (d) State two shortcomings of the Lorenz curve as a representation of the degree of inequality.
- (e) GDP is an important measure of economic power of a nation but GDP does not reflect its well being. Why ?
- (f) Portray the different forms of efficient market hypotheses in equity markets.

Section – B

- Answer any *six* of the following questions in about 200 words each : $15 \times 6 = 90$

- 2. What is financial repression ? How does it affect investment in the economy ?
- 3. State the Stolper-Samuelson theorem. Elucidate the logic of free trade underlined in the theorem.

4. Briefly explain the determination of the interest rate in the economy through the loanable funds theory.
5. Why is the long-run Phillips curve steeper than the short-run Phillips curve in an economy ?
6. Describe the following measures of inequality :
(i) the range, (ii) the Kuznets ratio, and (iii) the Gini coefficient.
Point out the shortcomings between Kuznets ratio and Gini coefficient.
7. What are the elements of structural change models of economic development that emphasize the transition from subsistence agriculture to modern manufacturing and service economies ?
8. How would you explain a neat 'jobless growth' in a developing economy despite high rate of inflation and economic growth ? Discuss.

Section – C

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

9. Suppose two countries form a free trade area and also decide on imposing a common tariff on their trade with the rest of the world. Demonstrate whether such a preferential trade agreement raises or lowers economic welfare.

10. Why did Solow argue that the capital-output ratio of the Harrod-Domar model is endogenous? Elaborate the steady state of the Solow growth model.
 11. Consider an open economy that is subject to a capital inflow due to a decline in interest rates abroad. The monetary authority absorbs the inflows as foreign exchange reserves. With the aid of a diagram compare the impact of it on the current account if the monetary authority sterilizes and does not sterilize the inflows. [Assume that the prices are predetermined in the short-period.]
 12. Keynes referred to the speculative motive for holding money as "the object of securing profit from knowing better than the (bond) market what the future will bring forth". How does it differ from Tobin's formalization of the speculative demand for money.
 13. What is the net welfare loss due to the imposition of an export subsidy on a good? Demonstrate the impact of export subsidy on welfare with the aid of a diagram.
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