

- Q Define IS and LM curve. what factors determine the slope of IS and LM curve?
- Q How does the slope of LM curve play an important role in determining the effectiveness of MP?

Q

$$C = 200 + 0.6 Y_d$$

$$G = 150$$

$$I = 150 - 8i$$

$$T = 200$$

$$m^d = 0.2Y - 2i \quad [\text{money demand}]$$

$$\left(\frac{\bar{m}}{P}\right) = 160 \quad [\text{money supply}]$$

- (i) Find the equilibrium level of income and the rate of interest rate
- (ii) How does the equilibrium level of income change with increase in government expenditure to 210?
- (iii) By how much amount should money supply change to keep the level of income constant.
- Q Explain the concept of liquidity trap

- Q If the government follows the policy of Balanced Budget that is $\Delta G = \Delta T$, will there be any change in Budget surplus? Explain.
- Q In IS-LM framework, suppose demand for investment becomes less responsive to changes in interest rate. What will be the impact on effectiveness of Fiscal Policy?
- Q In the classical model, analyse the effects of an increase in government spending, financed by selling bonds to the public, on output, employment and price level.

Q Given:

$$C = 85 + 0.5Y_d$$

$$I = 65$$

$$G = 60$$

$$T = 0.2Y$$

- (i) Solve the equilibrium level of income and consumption.
- (ii) Calculate Government's Budget surplus/deficit.
- (iii) Suppose the taxes increase to 0.25Y. What would be the new equilibrium level of income?

3

Q In an economy, the central bank pursues an expansionary monetary policy. Simultaneously the government of the economy lowers the tax rates. Illustrate the effects of such a policy mix on equilibrium output and interest rate.

Q Explain true or false :

(i) For a given interest rate, an increase in taxes shifts the IS curve to the right.

(ii) The greater the propensity to consume, the higher the multiplier.

Q Explain the determination of equilibrium level of output, employment and the real wages in the classical system.