12 FEB 2018

Answer all Questions   **Time: Three hours**

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i.	Briefly explain the functions of money in a modern economy.	(04 Marks)
ii.	What is meant by Money Supply? Explain the impacts of excess money supply.	(04 Marks)
iii.	Distinguish between cash transaction and credit card transaction.	(04 Marks)
iv.	Explain the process of money multiplier.	(04 Marks)
v.	Explain the Keynesian motives for holding money with them	(04 Marks)

(Total 20 Marks)

i.	Explain a two sector model income circular flow of an economy.	(04 Marks)
ii.	What is meant by GDP deflator?	(04 Marks)
iii.	Briefly explain the Marginal Propensity to Consume (MPC).	(04 Marks)
iv.	Suppose an economy characterized by the following functions:	(08 Marks)

$$C = 100 + 0.8Y_d$$
$$I = 100 \text{ Million}$$
$$G = 100 \text{ Million}$$
$$T = 100 \text{ Million}$$

a   Find the equilibrium level of income.

b   How much increases in income will take place if the government expenditure on goods and services increase by Rs. 60 Million.

c   Find the Tax Multiplier and Balanced Budget Multiplier.

d   Find the equilibrium level of income, if $T = 100 + 0.25Y$.

(Total 20 Marks)

i.	Explain briefly the postulates made by the Classical Economists.	(04 Marks)
ii.	Show how investment and savings affect the circular flow of income.	(04 Marks)

iii.   What is meant by moral suasion?   (04 M

iv.   The following data are given for an economy: (08 M

Consumption	$C = 40 + 0.75Y$
Investment	$I = 140 - 10i$
Government expenditure	$G = 100$
Lump sum Tax	$T = 80M$
Money demand	$M^d = 0.2Y - 5i$
Money Supply	$M^s = 85M$

b. Derive the IS and LM functions of the economy.

d. Find the equilibrium income and interest rate.

f. Suppose the government increases its expenditure by Rs. 50 million what would be its effect on the equilibrium level of income?

h. Estimate the Fiscal Multiplier.

                                                             (Total 20

4   i.   What is meant by Consumption? Explain briefly.   (04 M

     ii.   Explain the various determinants of Keynesian theory of consumption?   (08 M

     iii.   Suppose a 20-year-old person expects to live 55 years more, but only to work for 45 of those years. He expects to earn Rs. 20,000 each year. Find the following.   (08 M

     a.   Retirement age and Life time income of an individual.

     b.   Total consumption until his retirement age and after his retirement age.

     c.   Annual saving during his working period.

     d.   Find the Average Propensity to Consumption (APC) during the employment years.

                                                              (Total 20

5.   Write about the following

     i.   Terms of Trade   (04 M

     ii.   Solow model   (04 M

     iii.   Multiplier   (04 M

     iv.   Unemployment   (04 M

     v.   Credit Control   (04 M

                                                             (Total 20