15|12|16

Doon University, Dehradun
Final Examination, 2016
School of Social Science
MSc Semester – 1st (Economics)
Course – SSEI -111
Macroeconomics-1

Time Allowed: 3hrs | Maximum Marks: 50

Section - A (5x2 = 10 Marks)

Attempt all questions

1. Explain the concept of real exchange rate.
2. What is shoe-leather cost of inflation?
3. Explain the function of money as unit of account and store of value.
4. What is Fisher effect?
5. Distinguish between fiat money and commodity money.

Section - B

Attempt any **five** questions (5x3=15 Marks)

1. Suppose that an increase in consumer confidence raises consumer's expectations of future income and thus the amount they want to consume today. This might be interpreted as an upward shift in the consumption function. How does this shift affect investment and the interest rate?
2. State the measures for studying the effects of money on the economy.
3. Why does the classical dichotomy arise?
4. Why some economists believe that a little bit of inflation can be a good thing?
5. "Government purchases are said to crowd out investment". Explain.
6. Suppose you are advising a small country (such as Bermuda) on whether to print its own money or to use the money of its larger neighbour (such as the United States). What are the costs & benefits of national money? Does the relative political stability of the two countries have any role in this decision?

Section-C

Attempt any **five** questions (5x5=25marks)

1. How the following policies influence the real exchange rate:
   (a)Fiscal Policy at Home
   (b) Fiscal Policy Abroad.
2. Consider an economy described by the following equations:

$Y=C+I+G$

$Y=5{,}000$

$G=1{,}000$

$T=1{,}000$

$C=250+0.7(Y-T)$

$I=1000-5r$

(a)In this economy, compute private saving, public saving and national saving.

(b)Find the equilibrium interest rate.

(c)Now suppose the G rises to 1,250. Compute private saving, public saving and national saving.

(d)Find the new equilibrium interest rate.

3. Distinguish between ex ante real interest rate and ex post real interest rate. Also explain how it modifies the Fisher effect?

4. Explain the difference between Consumer Price Index (CPI) and GDP deflator.

5. With the help of Quantity Theory of Money, explain how quantity of money affects the economy?

6. Suppose that some foreign countries begin to subsidize investment by instituting an investment tax credit.

(a) What happens to world investment demand as a function of the world interest rate?

(b)What happens to the world interest rate?

(c)What happens to investment in our small open economy?

(d)What happens to our real exchange rate?