Time: 3 hours   **Marks: 60**

Answer all the questions

1. Read the table below which shows the quantity of output per unit of labor that each country can produce in the two industries, T and P. Establish which country has

Goods	Country	
	A	**B**
T	8	6
P	4	2

   a. Absolute advantage in good T
   b. Absolute advantage in good P
   c. Comparative advantage in good T
   d. Comparative advantage in good P   (2x4=8 Marks)

2. Use the information in the table below to answer the following question(s)

All figures in US million$

Export of Goods and Services	1000
Import of Goods and Sercvices	800
Net Change in assets owned abroad	500
Net Change in assets owned at home	400
Unilateral transfer received	100
Unilateral transfer paid	200
Investment income paid to foreigners	300
Investment income received from foreigners	400

   a. Based on above table what is the balance on the current account
   b. Calculate the balance on the capital account
   c. What will be the statistical discrepancy?   (3x3=9 Marks)

3. Math the following with most appropriate option (0.75x12=9 Marks)

A	Cash Reserve Ratio (CRR)?	1.	velocity of circulation of money
B.	Currency notes and coins are called as	2.	Exports and imports that take place within a firm
C.	In the terminology of economics and money demand, the terms M1 and M2 are also known as	3.	The view that government policy can tilt the terms of oligopolistic competition to shift excess returns from foreign to domestic firms.
D	Autarky	4.	Advocates government intervention to maximize exports and minimize imports
E	Intra-firm trade	5	Broad Money
F	Strategic trade policy	6	Export and import within the same industry
G	Scarce factor	7	The fraction of the deposits that commercial

1

			banks must keep with RBI
H	Mercantilism	8	The situation in which a country does not engage in international trade; self-sufficiency
I	In the terminology of economics and money demand, the terms M3 and M4 are also known as	9	Legal tender and Fiat Money
J	Intra-industry trade	10	A factor that a country has less of, compared to other countries
K	Increasing returns to scale	11	Narrow Money
L	The number of times a unit of money exchanges hands during a unit period of time is known as	12	The property that output rises more than in proportion to inputs when all inputs are expanded in the same proportion

4. Assume that an economy is characterized by the following structural equations : (2+2+2=6 Marks)

C = 160 + 0.6 (4– T) ,I = 150; G = 150; T = 100.

a) Determine the equilibrium output level.

b) If G rises to 200, what is the equilibrium level of output? What is the value of the govt. expenditure multiplier?

c) If tax falls to 50, by how much will equilibrium output rise? What is the value of tax multiplier?

5. Define any five in 100 words (2x5=10 Marks)
a. The lender of last resort
b. Open market operation
c. New Trade Theory
d. Functions of Money
e. Main functions of commercial banks
f. Barter System

6. In a situation when Russia opens to trade, it imports automobiles, a capital-intensive good.
(50 words on each) (2x4=8 Marks)
a. According to the Heckscher-Ohlin (H - O) theorem, is Russia capital abundant or labor abundant? Briefly explain.
b. What is the impact of opening trade on the real wage in Russia?
c. What is the impact of opening trade on the real rental on capital?
d. Which group (capital owner or labor) would support policies to limit free trade? Briefly explain.

7. Assume that in a closed economy there are 30% tax payers and rest do not pay tax. If marginal propensity of consumption (MPC) of tax payers is 0.6 and that of non-tax payers is 0.4 then what will be change in output (Y) for one unit simultaneous increase in government expenditure (G) and tax (T)? (5 Marks)

8. What do you mean by 'Golden rule of Capital' in the context of Solow's growth model? Graphically show the dynamic of investment, consumption and income (in same graph) when saving rate is reduced in the context of Solow's growth model. (5 Marks) (50 words Max)

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