Part-A (Answer <u>ALL</u> questions)   (5*2=10)

1) If in a closed economy government expenditure and tax are increased by same amount simultaneously then what will happen to total output. (Assume MPC=0.75)
2) What is the difference between GDP and GNP in national accounting?
3) Explain Okun's law.
4) Explain the concept of Solow residual?
5) What do you mean by velocity of money?

Part-B (Answer any <u>FOUR</u> questions)   (4 *5=20)

6) For a production function, $Y=AK^{\alpha}L^{\beta}$, what will be the saving propensity which will satisfy "Golden rule" of capital? (Assume production function exhibits constant return to scale)
7) Prove or disprove the following statement with economic logic and graph. "A contractionary fiscal policy in foreign country will lead to trade surplus for a <u>small open economy</u>."
8) Explain how Cagan's model emphasizes on credibility of Central Bank in controlling inflation?
9) What is GDP deflator? What is Purchasing Power Parity theory?   (2+3)=5
10) What are the three functions of money? Describe 'quantity' theory of money.   (3+2)=5