



INDIAN INSTITUTE OF TECHNOLOGY KHARAGPUR
Mid-Spring Semester Examination 2022-23

Date of Examination _____ Session: (FN/AN) _____ Duration: 2 hrs. Full Marks: 30
Subject No.: EM21204/HS21204 Subject: Macroeconomics II
Department/Center/School: HSS
Specific charts, graph paper, log book, etc., required: No
Special Instructions (if any): All questions are compulsory.

1. Explain with proper derivations the complete Keynesian model and argue how it is superior to the Keynesian cross. Discuss how the positions and slopes of IS and LM curves have bearings on the effectiveness of fiscal and monetary policies.

The following information is available for an economy:

Consumption Function (C)	$20 + 0.75(Y-T)$
Tax Function (T)	$0.2Y$
Private Investment Function (I)	$500 - 15r$
Government Expenditure (G)	400
Import Function (M)	$10 + 0.1Y$
Export Function (X)	260
Transaction Demand for Money (M_t)	$0.25Y$
Speculative Demand for Money	$125 - 50r$
Money Supply (M)	250

- (a) Provide the equations for the IS and LM curve solving them for Y.
(b) Find out the equilibrium income and rate of interest.
(c) Find original private investment. If government expenditure increases by 200, will the private investment change and if so, by how much?
(d) Find the velocity of money. 5+5
2. Derive the aggregate demand curve and aggregate supply curve of output under the flexible price model. Why the aggregate demand curve is negatively sloped? Explain different conditions under which the aggregate demand curve can become perfectly inelastic and its implications for an economy.

The following information is provided for an economy:

Investment function	$I = 100 - 50r$
Saving function	$S = -50 + 0.2(Y-T)$
Tax function	$T = 20 + 0.1Y$
Government Purchase	$G = 200$
Real demand for money	$\frac{L}{P} = 0.4Y - 50r$
Real Money supply	$\frac{M}{P} = \frac{600}{P}$

Derive aggregate demand (AD) equation. If the aggregate supply (AS) equation is estimated as $Y = 1020 + 2P$, find out the equilibrium income and price. 4+2

P.T.O.

3. "According to Keynes, even with flexible money wage rate, rejection of the Quantity Theory of Money may lead to income determination at less than full employment level". Substantiate this argument. 5
4. Distinguish between the Keynesian effect and the Pigou effect. Can Pigou effect lead to full employment equilibrium? Substantiate your argument. 5
5. Write short notes on the following: 2 x 2
 - (a) Monetary and Fiscal Policy and full employment equilibrium under the flexible price model
 - (b) Classical, Keynesian and Intermediate range and their significance