MINOR-II EXAMINATION, HUL 213
DEPARTMENT OF HUMANITIES AND SOCIAL SCIENCES
Maximum Marks- 20 Marks
6^{th} October 2013; Time: 8.00 AM - 9.00 AM

SECTION-C (11 Marks)

1. The following equations describe an economy:

   $C = 28 + 0.80Y_d$
   $I^* = 50 + 0.05\,Y$
   $G = 20$
   $T = 10$
   $X = 30$
   $M = 0.15Y$

   (a) Find equilibrium income.
   (b) Show the equality of leakages and injections at equilibrium.
   (c) How is the Rs.20 government expenditure financed?

   [4 Marks]

2. Consider the balance sheet of the following individual bank, Bank A

Assets		Liabilities	
Reserves	Rs.220,000	Demand Deposits	Rs.1,000,000
Loans	Rs.780,000		

Assume the required reserve ratio is 20 percent (.20).

(a) How much excess reserves does Bank A have?
(b) Suppose Bank A creates an account of demand deposits through lending that equals the amount of its excess reserves multiplied by the deposit multiplier, what will be the amount of the new loans it has created? What will Bank's balance sheet look like before any cheques have been written against the new deposits?
(c) Given your answer to part (b), suppose now that borrowers write cheques against the newly created demand deposits and that the recipients of their cheques deposit them in other Banks. What will happen to the level of reserves in Bank A? What now will be the level of excess reserves in Bank A?

[5 Marks]

3. Write short-notes on any *two* of the following:
   (a) Purchasing Power Parity
   (b) Human Development Index
   (c) Paradox of Thrift
   (d) Automatic Stabilizer

   [2 Marks]