Indian Institute of Technology Kharagpur

Date: _____FN/AN   Time: 2 hrs   Full Marks: 30   No of Students: 423

Spring Mid-Sem. Exam, 2017   Subject: Economics   Subject No: HS20001

Instruction: Answer one question at one place only. All questions are compulsory.

1. a) What are the underlying assumptions of Ordinal Measure of Utility? Why does marginal rate of substitution diminish? What do you mean by income and substitution effects of price change for normal goods?

   (1 + 1 + 2)

   b) What do you mean by the law of demand? What are the exceptions to the law of demand? Discuss the determinants of demand in the long run. Also, describe consumer surplus.

   (1 + 1.5 + 2.5 + 1)

2. a) Explain the Circular Flow Diagram of an economy and argue how different players of an economy are interrelated. What are the possible problems of an economy which can be exhibited through the circular flow?

   (3)

   b) Discuss the Keynesian Consumption Function with its properties and prove how Saving Function is a counterpart of Consumption Function. Is Keynesian Consumption Function applicable to short-run and why?

   (4)

   c) What is Marginal Efficiency of Capital (MEC) and how is it estimated? How is MEC related to investment in an economy?

   (3)

3. a) What do you understand by structural transformation? Critically examine the structural transformation of Indian Economy.

   (2 + 3 = 5)

   b) Explain the significance of Price Index in the measurement of Gross Domestic Product with a suitable example? Given the following information, calculate Fisher's Price Index:

   (3 + 2 = 5)

Year	Quantity of X	Price of X	Quantity of Y	Price of Y
Base	200	4	100	2
Current	240	6	150	3