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classmate

Date

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Answer keySIBA Macroeconomics II

Q.1 (a) Definition of money. Determinants of money supply — HPM, CRR, Community Choice, Velocity of circulation of money etc.

(b) Velocity of money — Definition — Factors — Money supply, frequency of transactions, regularity of income, payment system etc.

(c) Fisher's Equation = $MN = PT$, explanation, diagram, critical evaluation

Q.2 (a) Active Cash Balances — Transaction + Precautionary
 Motives of Demand for Money
 Passive Cash Balances: speculative Demand for money. with diagram.

(b) Liquidity trap. perfectly elastic LM curve with the help of diagram.

(c) LM Curve — Derive with the help of diagram.

Q.3 (a) Investment — concept to be defined — induced investment. Determinants — ROI, MEC etc. — —

(b) Shift in IS Curve — Autonomous expenditure, taxes, public borrowing. with diagram

(c) Animal spirit — 'gut instincts' of businessman — High risk taking ability. Threats of animal spirit

Q.4 (a) Explain General Equilibrium in Goods & Money market with the help of IS Curve, LM curve and joint equilibrium.

(b) Quantitative Instruments of MP — CRR, SLR, OMO, Repo rate
 Qualitative " " " — Margin Requirement, ceiling, ~~of~~ of credit, directed action etc.

(c) Objectives & Instruments of fiscal policy: full employment, promote economic growth etc. Instruments: Taxes, pub. exp't borrowings p7

Q5 (a) Measures of Money supply: Monetary & Liquidity Measures adopted by RBI

(b) Shift in the LM Curve: Expansion & Contraction in MS by the Central Bank with diagram

(c) $MPS = 1 - MPC = MPS$. ~~Cons~~ Saving function with numerical example & diagram.

(d) Effectiveness of fiscal policy with the help of IS-LM model.

