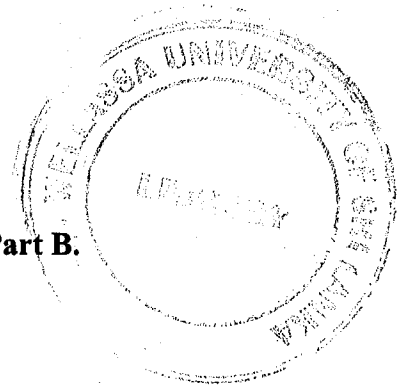

Part - B

Answer only three (03) questions including question number 01 in Part B.

Marks Allocated: 60

01.

i) Explain the features of 'Circular Flow of Income' Diagram. (08 Marks)

ii) Consider an economy that produces and consumes coffee and computers, The data is given for two different years.

	Year 2013	**Year 2014**
Price of a computer	Rs.100, 000	Rs.110, 000
Price of a Kilogram of Coffee	Rs.100	Rs.110
Number of computers produced	1,000	1,200
Kilograms of coffee produced	5,000	4,000

Using the year 2013 as the base year, compute;

i. Nominal GDP (2.5 Marks)

ii. Real GDP (2.5 Marks)

iii. Implicit Price Deflator (02 Marks)

iii) Assume a Consumption Function C= 100+ 0.8Y and Investment I= 50.

a. What is the Saving Function? (01 Marks)

b. Calculate the equilibrium income and savings. (03 Marks)

c. If Y increases to 800, what would be the level of involuntary accumulation? (02 Marks)

d. If I = 100, Calculate the level of equilibrium income, savings and level of multiplier. (05 Marks)

e. Graphically illustrate (a) and (d). (04 Marks)

(Total Marks 30)

02.

i) Discuss the effects of expansionary fiscal policies on interest rate, consumption, investment and aggregate demand. (06 Marks)

ii) Consider the following information for an economy.

$C = 190 + 0.8Yd$

$G = 45$

$T = 35 + 0.1Y$

$TR = 20$

$I = 100 - 110i$

$M/P = 5200$

$MD = 0.5Y - 150i$

You are required to;

a. Derive the IS curve (03 Marks)

b. Derive the LM curve (03 Marks)

c. The equilibrium interest rate and income (03 Marks)

(Total Marks 15)

03.

i) Suppose that due to a result of an improvement in technology the producer's supply changes from (S1) Qs= - 40+20P to (S2) Qs= - 10+20P.

a. Does supply increase or decrease from S1 to S2? (01 Marks)

b. Derive this producer's previous and new supply schedule. (03 Marks)

c. Draw this producer's supply curves before and after the improvement in technology. (03 Marks)

d. How much of commodity X does this producer supply at the price of Rs.4 before and after the improvement in technology? (02 Marks)

ii) Suppose that the total cost function and the price function are given as follows.

$Tc = 500 + 20Q^2$ $P = 400\text{-}20Q$

01. Determine the equations for TFC, TVC and AVC. (03 Marks)

02. Calculate profit maximizing price and quantity? (02 Marks)

03. Calculate the total profit of the firm (02 Marks)

(Total Marks 15)