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JK Lakshmipat University Jaipur
INSTITUTE OF MANAGEMENT

End Term Examination, May 2026
 BBA/ BBA (Hons.), Semester II, 2025-26

Roll No.....

EP1106 - Macroeconomics

Time: 2 hours

Max. Marks: 30

Instructions to students:

1. All questions are compulsory.
2. Use of scientific calculators is allowed.

Q. 1 Consider the following data for an economy:

Commodity	Base Year Price (₹ per unit)	Current Year Price (₹ per unit)	Quantity (units)
Food	20	22	10
Clothing	50	52	5
Fuel	40	44	2

2.0+1.0+3.0
(COI, 2)

In this economy, natural rate of unemployment (u_n) = 5%, and current unemployment (u) = 6%. The Phillips Curve is: $\pi = \pi^e - 0.5(u - u_n)$, where: π = actual inflation rate (%), π^e = expected inflation rate (%), u = unemployment rate (%) and u_n = natural rate of unemployment (%).

- A. Calculate the inflation rate using Consumer Price Index (CPI) method. This inflation rate is assumed to be the expected inflation (π^e).
- B. Using expected inflation (π^e) value, calculate actual inflation.
- C. Using your results from (a) and (b), draw diagrams and explain the Short Run and Long Run Phillips Curve Mechanism.

Q. 2 A closed economy with no taxes is described by the following equations (values in USD billion): Consumption function: $C = 1000 + 0.8Y$, Investment function: $I = 400 - 20r$, Government expenditure: $G = 200$, Money demand function: $M_d = 0.5Y - 200r$ and Real money supply: $M_s = 600$. Assume that both the goods market and money market are in equilibrium where interest rate (r) is expressed in percentage terms.

4.0+2.0+4.0
(COI, 2, 4, 7)

- A. Derive the IS and LM equations and find the initial equilibrium level of income (Y) and interest rate (r).
- B. Due to an economic shock, investment changes to: $I = 300 - 20r$. Find the new equilibrium level of income (Y) and interest rate (r).
- C. Explain the fiscal and monetary policy mechanisms to restore economic shock using IS-LM framework diagrams. Clearly illustrate the shifts in curves and explain the changes in equilibrium income and interest rate.

- Q. 3 The Indian economy is experiencing external sector imbalances due to rising crude oil prices and global uncertainty. The following data (in USD billion) is available for a given year. Current Account: Exports of goods = 300, Imports of goods = 600, Exports of services = 200, Imports of services = 100, Net income from abroad = -50 and Net transfers (remittances) = 80
 Capital/Financial Account: Foreign Direct Investment Inflows (FDI) = 100, Foreign Portfolio Investment (FPI) = 40, External Commercial Borrowings (ECB) = 40 and Capital outflows = 60
 Forex Reserves Position: Initial foreign exchange reserves = 600
 Foreign Exchange Market: Demand Function is $Q_d = 600 - 20(e - 80)$ and Supply Function is $Q_s = 500 + 20(e - 80)$, where, e is Exchange rate (₹ per USD)
- 2.0+1.0+2.0+3.0
(CO1, 2, 6, 7)
- A. Calculate the overall Balance of Payments (BoP) balance and identify whether it is a surplus or deficit.
 - B. Calculate the new level of foreign exchange reserves after financing the BoP imbalance. Briefly explain its impact on foreign exchange reserves and the external sector.
 - C. Find the initial equilibrium exchange rate. Then, assuming that the BoP imbalance shifts the demand for foreign exchange by an amount equal to the imbalance, determine the new exchange rate.
 - D. Discuss fixed, flexible, and floating exchange rate systems and their relevance in correcting external imbalances.
- Q. 5 In an economy, the demand for money (M_d) is initially determined by the Cambridge equation where $k = 0.25$. The price level (P) is 4 and national income (Y) is 2000. Assume that money demand and national income are measured in ₹ billion, and the price level is an index number. However, due to instability in the bond market, people expect interest rates to rise from 4% to 8% in the near future, which creates expectations of capital losses on bonds and influences individuals' preference for holding money. Based on this case, calculate the initial money demand using the Cambridge equation ($M_d = kPY$). Describe the theory that best explains this change.
- 3.0
(CO1, 3)
- Q. 6 Consider an economy where the central bank has increased the money supply from ₹10 trillion to ₹15 trillion over a period of time. As a result, the interest rate has fallen sharply from 6% to nearly 0.5%. However, even after a further increase in money supply to ₹18 trillion, there is no significant change in investment (remaining around ₹2 trillion), national income (₹50 trillion), and employment levels (unemployment rate stagnant at 8%). Inflation also remains very low at around 1%, indicating weak aggregate demand conditions. Identify and explain this economic condition using the concept of Keynesian theory with the help of a money demand curve. Suggest one suitable policy measure to improve this economic condition and briefly explain how it would work.
- 3.0
(CO1, 3, 4)

all the best!