

( 2 )

- (e) Phillips curve shows the relationship between \_\_\_\_\_ and \_\_\_\_\_.

( Fill in the blanks )

- (f) State one limitation of Mundell-Fleming model.

- (g) Purchasing power parity (PPP) is measured by finding the values (in USD) of a basket of capital/consumer/both consumer and capital goods.

( Choose the correct option )

- (h) Mention one component of International Financial Market.

2. Write short notes on any *four* of the following (within 150 words each) :  $4 \times 4 = 16$

- (a) Determinants of consumption
- (b) Marginal efficiency of investment
- (c) Rational expectations and policy ineffectiveness
- (d) Open and closed economy
- (e) Basic accounting rule for international trade

( 3 )

Answer the following questions (within 500 words each) :

3. (a) Explain the fundamental psychological law of consumption. What are its implications? Discuss.  $8+4=12$

Or

- (b) Explain the relative income hypothesis with the help of suitable examples. Is it superior to the absolute income hypothesis? Discuss.  $10+2=12$

4. (a) What are induced and autonomous investments? Explain the profit and accelerator theories of investment.  $2+9=11$

Or

- (b) What is marginal efficiency of capital? Explain. Discuss the relationship between marginal efficiency of capital and rate of investment.  $5+6=11$

5. (a) Explain the Phillips curve with the help of suitable diagrams. Prescribe some measures to cure stagflation.  $6+5=11$

Or

- (b) Discuss critically the adaptive expectations theory. How does it differ from the rational expectations?  $8+3=11$