

Bharat Ratna Dr. B.R. Ambedkar University, Delhi

School of Liberal Studies

Entrance Test 2012-13

MA Economics

Maximum Marks: 75

Time: 2 hours 30 min

Answer all sections and all questions (internal choice only in Section C).

Answer all questions on the paper itself.

Use additionally provided sheets for all rough work.

Please enter your particulars (name and roll number) below before answering the paper.

Name (as in application form)

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To be filled in by Examiners Only

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Section A

Multiple Choice Questions (30)

(1 mark each)

Please Tick (✓) the correct answer.

1. In the IS-LM model, an increase in the marginal propensity to consume would
 - (a) Make the IS curve steeper
 - (b) Make the IS curve flatter
 - (c) Leave the slope of the IS curve unchanged
 - (d) Have different consequences depending on the other parameters of the model

2. If an increase in the price of blue jeans leads to an increase in the demand for tennis shoes, then blue jeans and tennis shoes are
 - (a) Complements
 - (b) Substitutes
 - (c) Normal goods
 - (d) Inferior goods
 - (e) None of the above

3. The marginal rate of substitution measures the distance between one indifference curve and the next one.
 - (a) True
 - (b) False

4. Friedman's theory of consumption is based on
 - a) Life Cycle Hypothesis
 - b) Past Income
 - c) Permanent Income
 - d) Real income

5. If it is observed that the long run marginal cost is below the long run average cost at a quantity Q, then Q is
 - (a) The long-run equilibrium quantity of the firm.
 - (b) Less than the long-run equilibrium quantity of the firm.
 - (c) More than the long-run equilibrium quantity of the firm.
 - (d) The long-run equilibrium quantity of the industry.

6. Under what conditions of duopoly, prices do not change when there are small changes in the overhead costs?
- a) Cournot Solution
 - b) Kinked Demand Curve Solution
 - c) Stackelberg Solution
 - d) Market Shares Solution
7. The maximum value attained by the function $f(x) = x^2 - 4x + 5$ on the interval $0 \leq x \leq 3$ is
- (a) 1
 - (b) 2
 - (c) 4
 - (d) 5
8. There is a technological advance in the production of ice cream. As a result, the supply curve of ice cream shifts _____ and _____.
- (a) leftward; both the equilibrium price and equilibrium quantity fall
 - (b) rightward; both the equilibrium price and equilibrium quantity rise
 - (c) rightward; both the equilibrium price and equilibrium quantity fall
 - (d) rightward; the equilibrium price falls while the equilibrium quantity increases
9. According to Rybczinski Theorem, an increase in labour supply in a country leads to
- (a) Higher Unemployment
 - (b) Lower wages
 - (c) Decrease in production of labour-intensive goods
 - (d) Increase in production of labour-intensive goods
10. In Solow's growth model, the capital-labour ratio in the steady state depends on:
- (a) Only the rate of growth of population.
 - (b) Only the growth rate of population and the production function.
 - (c) Only the growth rate of population and the proportion of income saved.
 - (d) Only the growth rate of population, the proportion of income saved and the production function

11. If $A = 8x + 6$, and x is increased by 2, what will be the corresponding increase in A ?
- (a) $2x$
 - (b) $8x$
 - (c) 2
 - (d) 16
12. Which of these is *not* an assumption of the Mundell-Fleming model?
- (a) Domestic and foreign assets are perfect substitutes.
 - (b) Domestic prices are perfectly flexible.
 - (c) There are no restrictions on capital flows.
 - (d) The world interest rate is exogenously given.
13. A competitive firm has the following cost and revenue characteristics at its current level of output: Price=Rs.8, average variable cost=Rs.6, and average fixed cost =Rs.4. This firm is
- (a) Making a loss of Rs.2 per unit and should shut down.
 - (b) Making zero economic profit.
 - (c) Making a profit of Rs.2 per unit and should expand.
 - (d) Making a loss of Rs.2 per unit, but should continue operating.
 - (e) Making a profit of Rs.2 per unit but should cut output.
14. The 'inverted U' Kuznets Curve hypothesizes the relationship between
- (a) Income and Nutrition
 - (b) Economic Growth and Social Welfare
 - (c) Inequality and Poverty
 - (d) None of the above
15. Consider an economy where the nominal rate of interest remains unchanged at i . The present value of an asset which will pay back Rs. a at the end of one-year from now and Rs. b at the end of two years from now and nothing thereafter is
- (a) Rs. $a(1 + i) + b(1 + i)^2$
 - (b) Rs. $a + b(1 + i)$
 - (c) Rs. $a/(1 + i) + b/(1 + i)^2$
 - (d) Rs. $a + b/(1 + i)$

16. In colonial India, the Permanent Settlement Act passed in 1793 was related to
- a) Indigo exports
 - b) Land revenues
 - c) Remittances
 - d) Agricultural debt
17. How many *real* roots does the equation $x^3 + 32 = 0$ have?
- (a) 0
 - (b) 1
 - (c) 2
 - (d) 3
18. For an ordinary good, the direction of Substitution Effect and Income Effect due to a price change are
- (a) Opposite to each other
 - (b) Same for both
 - (c) Either of the above
 - (d) None of the above
19. The investment demand curve shifts rightward if
- (a) The expected profit rate increases.
 - (b) The real interest rate falls.
 - (c) Savers increase their thriftiness.
 - (d) The economy moves into a recession.
20. The Quantity Theory of Money does not consider money to have a 'store of value'.
- a) True
 - b) False
21. The Fiscal Responsibility and Budget Management (FRBM) Act stipulates that the fiscal deficit as a proportion of GDP should be restricted to
- (a) 1 percent
 - (b) 2 percent
 - (c) 3 percent
 - (d) 4 percent

22. International trade is based on the idea that
- (a) Exports should exceed imports
 - (b) Imports should exceed exports
 - (c) Resources are more mobile internationally than are goods
 - (d) Resources are less mobile internationally than are goods
23. The Doha Development Round of the WTO negotiations, which started in 2001, was completed by
- (a) 2003 at Cancun
 - (b) 2005 at Paris
 - (c) 2008 at Geneva
 - (d) None of the above
24. A, B and C are planning to race against each other. A and B each are twice as likely as C to win the race. What is the probability of C winning the race?
- (a) $1/6$
 - (b) $1/5$
 - (c) $1/4$
 - (d) $1/3$
25. The mean of a set of 10 numbers is 15. Another two numbers are included in the set and the new mean becomes 20. What is the mean of the two additional numbers?
- (a) 5
 - (b) 9
 - (c) 24
 - (d) 45
26. Last month, the price of envelopes was Rs 3 a set, and I was willing to buy 10 sets. Now, the price has gone up to Rs 3.75 a set, and I am now willing to buy 8 sets. My demand for envelopes is elastic.
- (a) True
 - (b) False
27. $f(x) = 2x^2 - 6$ and $g(x) = 2x - 1$. The value of $g(f(-3))$ is
- (a) 23
 - (b) 61
 - (c) 93
 - (d) 45

28. The ratio of the standard deviation to the mean for any distribution is referred to as

- (a) probability distribution
- (b) variance
- (c) expected return
- (d) coefficient of variation

29. If GNP per capita at constant prices for Liechtenstein, a microstate of 29,000 people located on the Rhine River between Switzerland and Austria, is US\$555 and US\$560 in 2004 and 2005 respectively, the real economic growth from 2004 to 2005 is

- (a) 5%
- (b) 0.901%
- (c) 0.090%
- (d) 0.991%

30. The increased prevalence of which of the following was largely responsible for the rise of the modern city during the Industrial Revolution?

- (a) The automobile.
- (b) Improved and regulated medical practices.
- (c) The factory.
- (d) The school.

3. Let the GDP, population and per-capita GDP of a country in period t be denoted by Y_t , N_t and Z_t respectively. Suppose for some period t

$$\frac{Y_{t+1} - Y_t}{Y_t} = g, \quad \text{and} \quad \frac{N_{t+1} - N_t}{N_t} = r$$

What would be the value of $(Z_{t+1} - Z_t)/Z_t$?

4. “An economy can be Pareto-optimal and still be perfectly disgusting.” Comment on the statement.

5. Suppose that in a particular market, the supply curve is highly elastic and the demand curve is highly inelastic. If a specific unit tax 't' is imposed in this market, explain with reasons how the tax burden will be shared between the buyers and sellers?
6. In Delhi, the probabilities are 0.86, 0.35 and 0.29 respectively that a family will own a colour television set, a black-and-white set or both kinds of sets. What is the probability that a family does not own a television set in Delhi?

7. Check consistency of the following two statements:

- 1) As price falls demand rises.
- 2) As demand rises price rises.

8. The government of the country of Laputa is considering abandoning its independent currency, the Sunbim, and declaring the Troller, the currency of the neighbouring country of Atlantis, to be legal tender throughout Laputa. Discuss the major economic disadvantage of this policy. Does the same disadvantage apply to two regions of the same country—say Maharashtra and Karnataka in India—sharing a common currency.

9. Briefly explain the *Triangular Settlement of Trade* between India, China and Great Britain in the early 19th century.

10. For the following frequency table, the mean was found to be Rs. 76.4. But while copying out the table, the typist missed two of the frequencies, f^* and f^{**} . From the given information, determine f^* and f^{**} .

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|------------------------------------|----|----|-------|----|----------|----|----|-------|
| Weekly Wages in Rs. (mid-value) | 65 | 70 | 75 | 80 | 85 | 90 | 95 | Total |
| Frequency | 5 | 48 | f^* | 30 | f^{**} | 8 | 6 | 150 |

Section C

Passage Based Questions (2)

(Total 15 marks)

Do either one of Choice I or II and limit answers to the space provided after them. Please indicate the choice exercised in the space provided and number the answers.

Choice I

Read the passage carefully and answer the questions that follow.

The intensity of the food crisis that hit many developing countries from 2008 was particularly on account of the very sharp global volatility in food prices. Between January 2007 and June 2008, world trade prices of major food grains nearly doubled on average. They fell between June 2008 and early 2009, but have been rising again in the past year. Meanwhile, the number of countries experiencing food emergencies and severe to moderate food crises remains high and the proportion of vulnerable population in the developing world has actually increased. The pass through of global food prices tends to be much higher during periods of rising world prices than when prices fall, and in many countries food prices are now higher than they have ever been, even as wage incomes have stagnated or fallen. Both cultivators and food consumers appear to have lost in this phase of extreme price instability, with the only gainers from this process being the intermediaries who were able to profit from rapidly changing prices.

The wild swings in prices cannot be explained by seasonal supply and demand factors or any other "real economy" tendencies. Instead, they are clearly the result of speculative activity in these markets. Financial deregulation in the early part of the current decade gave a major boost to the entry of new financial players into the commodity exchanges. Unlike producers and consumers who use such markets for hedging purposes, financial firms and other speculators increasingly entered the market in order to profit from short-term changes in price. There was a consequent emergence of commodity index funds that were essentially 'index traders' who focus on returns from changes in the index of a commodity, by periodically rolling over commodity futures contracts prior to their maturity date and reinvesting the proceeds in new contracts.

Thus international commodity markets increasingly began to develop many of the features of financial markets, in that they became prone to information asymmetries and associated tendencies to be led by a small number of large players and allowed for inherently 'wrong' signalling devices to become very effective in determining and manipulating market behavior.

Regulation to prevent such casino behaviour in commodity markets is an essential element to mitigate the food crisis and prevent future crises, even if it is not the only

measure required. The recent Dodd-Frank Financial Reform Bill passed by the US Congress has some important features towards such regulation, though how they will be implemented is crucial. But the proposed legislation in the EU is still too weak to have much impact, especially because it does not even specify position limits for traders in commodity futures markets. To prevent future food crises with even more devastating impact from ravaging people across the world, much more stringent control over finance is a minimum necessary condition.

- (a) Based on the above passage, explain the linkages between food and financial markets and the consequent implications for food prices. (8 marks)
- (b) The passage argues for regulation in commodity exchange markets to prevent undue jumps in food prices that are caused by market failures. Explain in your own words whether you agree or disagree with this prescription. (7 marks)

Choice II

Read the passage carefully and answer the questions that follow.

Many developing countries, including those perceived to be the most successful in terms of output growth rates, exhibit some form of jobless growth, especially in formal sector activities. This reflects two general tendencies: a shift in the production structure across and within sectors, whereby income expansion is associated with the demand for goods and services produced in more capital-intensive conditions without generating a demand for labour-intensive goods and services; and the associated technological and organisational changes that help improve labour productivity.

In general, the reasons for this apparent disjunction between output growth and employment generation are not so difficult to find. First of all, the pattern of manufacturing growth under an open economic regime tends to be such that the responsiveness of employment growth to the growth in output declines. It is worth noting that the combination of high output growth and low employment growth is a feature that has characterised both India and China during the years when they have opened their economies to trade and investment. Even in China, which is the most successful manufacturing exporter of recent times, the total industrial employment decreased by more than 8 million workers between 1997 and 2002, and then increased slightly to reach a total of 230 million workers by 2004. This figure has stagnated at around that level since then, even though industrial production has more than doubled. In other export oriented developing countries, manufacturing employment has remained stagnant or fallen slightly. So there has not been an 'export' of jobs from North to South: rather, international competition has generated greater and greater use of labour-saving techniques that have caused manufacturing jobs everywhere to simply disappear.

There are several reasons for this. The most obvious is the impact of trade liberalisation on the pattern of demand for goods and services within the country. As the tastes and preferences of the elites in developing countries are influenced by the 'demonstration effect' of lifestyles in the developed countries, new products and processes introduced in the latter very quickly find their way to the developing countries when their economies are open. Further, technological progress in the form of new products and processes in the developed countries is inevitably associated with an increase in labour productivity. Producers in the developing countries find that the pressure of external competition (in both the exporting and import-competing sectors) requires them to adopt such technologies. Hence, after the liberalisation of external trade, labour productivity growth in developing countries is more or less exogenously given and tends to be higher than it was prior to trade liberalisation. This is the probably the primary cause of the growing divergence between output and employment growth in the case of Indian industry and some services.

- a) Does the argument in this passage support the conclusion that the relocation of production from developed to developing countries does not imply a transfer of jobs? Give reasons for your answer. (7.5 marks)
- b) Does this passage suggest unequivocally that technological progress is the enemy of employment generation? Answer with reasons. (7.5 marks)

Space for Section C Answers:

Choice: I / II (Please tick the appropriate one or cross out the other)

End of Paper