

ARUNACHAL PRADESH PUBLIC SERVICE COMMISSION

ECONOMICS: PAPER - I

Time: 3 (Three) hours

Full marks 100

(Group - A is compulsory. Attempt any FOUR questions from Group - B).

GROUP - A

(This Group is COMPULSORY)

Q. 1. Attempt any 10 (ten)

10x2=20

1. Why is Marshallian demand curve negatively sloped?
2. What does internal rate of return mean?
3. What is Classical Dichotomy?
4. Identify the main characteristics of merit goods?
5. Given the utility function $U = W^{1/2}$, find the absolute and relative risk aversion.
6. What is moral hazard?
7. Highlight the factors determining the money stock in Kaldor's model.
8. In what situation does the prisoner's dilemma arise?
9. Why have self-help groups been formed in India ?
10. How do type one and type two errors arise ?
11. How does foreign trade multiplier operate?
12. What is Leontief Paradox?

GROUP - B

(Answer any Four.)

Q.2. Attempt any 8 (eight)

8x2.5=20

1. What are the characteristics of Cobb-Douglas production function?
2. Highlight the relationship between Keynesian average propensity to consume and the level of income.

3. What is voluntary exchange principle?
4. Why is lump-sum-tax neutral?
5. Write down the equation of a circle whose origin is at the centre and radius is 1, and find the value of y, when the value of X is $\frac{1}{2}$.
6. Differentiate the function, $(2x + 1)(e^{-x} + 3)$
7. Distinguish between utility of the expected payoff and the expected utility of the payoff.
8. What is the shape of the long-run Phillips Curve, according to monetarism?
9. Distinguish between gross barter terms of trade and net barter terms of trade.
10. The parameters of a Gamma variate are 4 and 6. What is its expected value?

Q. 3. Attempt any 5 (five)

5x4=20

Write short notes on any five of the following:

1. Distinguish between Hicks' and Kaldor's compensation principles.
2. What is Zero base Budgeting? In what ways is it superior to traditional budgeting?
3. Given two points (1, 2) and (-3, 5). Find the equation of the straight line.
4. Discuss how asymmetric information causes the problem of adverse selection.
5. What are the functions of SEBI?
6. How does purchasing power parity determine the Exchange Rate?
7. Write down the characteristics of Chi-square distribution.

Q.4. Attempt any 4 (four)

4x5=20

1. What are the properties of Leontief production function?
2. How does acceleration principle explain the behaviour of investment?
3. What is Ricardian equivalence? Why is Ricardian equivalence not taken seriously in practice?
4. Distinguish between zero-sum and non-zero-sum games. Give examples from day-to-day life.
5. Show how diversification in a portfolio reduces the risk.

Q.5 . Attempt any 2 (two)

2x10=20

1. Show how Multiplier and Accelerator interaction generates cycle.
2. Discuss Rybczynski-Bhagawati view on immiserizing growth.
3. What is the elasticity of demand? Given the demand function: $P = 20 - 2Q$, Find the elasticity of demand when $P = 5$. At what price is the elasticity exactly equal to one?

Q.6. Attempt any 4 (four)

4x5=20

1. Discuss Musgrave's optimum budget Model. Do you find any shortcomings of this model?
2. The Demand curve faced by a competitive firm is $P = 20$. The marginal cost function of the firm is $MC = 5 + 2Q$. Find the profit-maximizing output and the total amount of profit.
3. Show that marginal productivity theory cannot be applied to distribution of income when the production function is subject to increasing and decreasing returns to scale.
4. How does the real business cycle model explain the cycles? Highlight its main flaws.
5. Describe the hypothesis of secular deterioration of the terms of trade of the poor countries. Does it hold in the present circumstances?

Q.7. Attempt any 2 (two)

2x10=20

1. Derive the moment generating function (MGF) of the normal distribution and find from MGF the expected value and variance of a normal variate.
2. What are the features of monopolistic competition? Why is there excess capacity in a monopolistic industry?
3. Derive IS curve. What are the factors determining the elasticity of the IS curve?

- Q.8** What is Ratchet effect? Discuss how Duesenberry uses the Ratchet effect and demonstration effect in order to explain the difference between the short-term and long-term consumption behaviour. Identify some shortcomings of Duesenberry's treatment of consumption behaviour.

20

- Q. 9.** Provide the basic characteristics of Harry Johnson's monetary approach to balance of payments. What happens to the balance of payments, if the Central Bank expands money stock by a significant amount ? **20**
- Q. 10.** What are the sources of Public debt? Discuss the effects of Public Debt. Is Public Debt a Burden ? **20**

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