Answer all Questions   Time 3 Hours

1 i.   Describe the functions of money?   (05 Marks)

    ii.   What are the significances of money in modern economy?   (05 Marks)

    iii.   How do commercial banks create money? Explain the process.   (10 Marks)

                                               (Total 20 Marks)

2. i.   Briefly explain the Marginal Propensity to Consume (MPC).   (04 Marks)

    ii.   Differentiate between injection and leakages.   (06 Marks)

    iii.   Explain the income circular flow for two sector economy.   (10 Marks)

                                               (Total 20 Marks)

3. i.   Briefly explain the determinants of consumption.   (04 Marks)

    ii.   What is meant by the "ratchet effect"?   (04 Marks)

    iii.   Suppose a 20 – year old person expects to live 50 years more, but only to work for 40 of those years. He expects to earn Rs. 20,000 each year. Ignoring interest and find the following.

        a. Life time income,   (04 Marks)

        b. Life time consumption,   (04 Marks)

        c. Savings and accumulation for future.   (04 Marks)

                                               (Total 20 Marks)

4. **Suppose an economy is described by the following structural equations:**

$C = 10 + b(Y - 40 - tY)$

$I = 50$

$X = 20$

$M = 5 + 0.1Y$.

Here   assume that

(a) MPC = 0.75,

(b) the budget of the government is in balance,

(c) the proportional tax rate t = 0.20.

Answer the following questions:

i.	Find out the equilibrium level of national income.	(10 Marks)
ii.	What is the value of the foreign trade multiplier?	(05 Marks)
iii.	Calculate the import at equilibrium income?	(05 Marks)

(Total 20 Marks)

3. Briefly explain the following.

i.   Devaluation of currency (05 Marks)

ii.   Fixed exchange rate system (05 Marks)

iii.   Balance of Payments (05 Marks)

iv.   Cash Reserve Ratio (05 Marks)

(Total 20 Marks)