

b) Analyze the interaction between product and factor markets and explain how general equilibrium is achieved. 13 K4 CO3

14. a) Explain the various methods involved in computation of National Income. 13 K2 CO4

OR

b) Explain the multiplier effect and its importance in demand-side management. 13 K2 CO4

15. a) Analyze the causes and impact of unemployment on the economy. 13 K4 CO5

OR

b) Analyze the determination of money supply and demand. How does monetary policy influence national income? 13 K4 CO5

PART - C (1× 15 = 15 Marks)

(Compulsory)

16. a) The country of Econland has recently experienced a sharp rise in the prices of essential goods and services. Inflation has reached 8% per year, which is above the target set by the central bank. At the same time, unemployment has fallen to historically low levels. The central bank decides to increase the policy interest rate to control inflation. 15 K5 CO5

Questions:

1. Explain how an increase in interest rates can help reduce inflation.
2. Using the Phillips curve, analyze the tradeoff between inflation and unemployment in this scenario.
3. How might this monetary policy decision affect aggregate demand and short-run aggregate supply?