ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Economics)

WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

Course: Advanced Microeconomics (806) **Semester: Spring, 2014**
Level: M.Sc. Economics **Credit Hours: 3**
Total Marks: 100

ASSIGNMENT No. 1
(Units 1–5)

Q.1 Explain how and why the income and interest sensitivities of demand for real balances affect the slope of LM curve? (20)

Q.2 What is liquidity trap? If the economy was in stuck in one, would you advise the use of monetary or fiscal policy? (20)

Q.3 Explain why the classical supply curve is vertical? What are the mechanisms that ensure continued full employment of labor in the classical case? (20)

Q.4 In classical model, how will an increased desire by public to hold money balances affect prices, income and employment? How would your answer differ in an extreme Keynesian model? (20)

Q.5 Explain in detail the significance of ratio of consumption to income (APC) in term of the level of economic activity. Would you expect it to be higher or lower than normal during a recession or depression and why this ratio differs in developed and under developing countries? (20)

ASSIGNMENT No. 2

(Units 6–9) **Total Marks: 100**

Q.1 If an economy has achieved its desired capital stock and merely to maintain it, should any investment occur? If not, why not? If so, how much? (20)

Q.2 Describe the Friedman's theory of demand for money in detail. (20)

Q.3 Explain whether there is a tradeoff between inflation and employment is basically question of whether labor is subject to money illusion. (20)

Q.4 Analyze the statement "the saving rate cannot affect the growth of output in the economy, that determined by the growth of labor input and by technical progress. (20)

Q.5 Explain the Harrod-Domer models of economic growth and their relevance for developing countries. (20)