

**FIFTH SEMESTER B.A. DEGREE EXAMINATION
NOVEMBER 2019**

(CUCBCSS—UG)

Economics

ECO 5B 07—MACRO ECONOMICS—I

Time : Three Hours

Maximum : 80 Marks

Part A (Objective Type Questions)

Write all the twelve questions.

Each question carries ½ mark.

1. According to Friedman, MPC out of transitory income is :
 - (a) Zero.
 - (b) One.
 - (c) 0.5.
 - (d) 0.40.
2. The following concept is not related to classical economics :
 - (a) Wage- price flexibility.
 - (b) Laissez Faire.
 - (c) Full employment.
 - (d) Interest rate rigidity.
3. According to Friedman, the quantity theory of money is basically a theory of :
 - (a) Aggregate demand.
 - (b) The demand for money.
 - (c) National income.
 - (d) The level of prices.
4. Given the consumption function, $C = 205 + 0.9 Y$, what is the multiplier ?
 - (a) 0.09.
 - (b) 10.0.
 - (c) 0.9.
 - (d) 9.0.
5. When a linear consumption function undergoes a parallel shift downwards, the investment multiplier will :
 - (a) Fall.
 - (b) Rise marginally.
 - (c) Become double.
 - (d) Remain as before.

Turn over

6. Wage cut leads to lower interest rates and increased investment :
- (a) Real Balance Effect.
 - (b) Pigou Effect.
 - (c) Wealth Effect.
 - (d) Keynes Effect.
7. Disposable income includes :
- (a) Direct tax.
 - (b) Indirect tax.
 - (c) Only wealth tax.
 - (d) None of the above.
8. Identify the strategic variable in the Classical theory of employment :
- (a) Income.
 - (b) Interest rate.
 - (c) Investment and full employment.
 - (d) Saving and Say's Law of market.
9. Velocity of circulation of money (V) is negatively affected by :
- (a) Shorter time interval of income receipts.
 - (b) Economic prosperity.
 - (c) Liquidity preference is less.
 - (d) High degree of inequality.
10. Which of the following statement is/are true ?
- (a) During a recession the economy is inside its production-possibility frontier.
 - (b) During a recession the GDP gap is positive.
 - (c) During a recession the unemployment rate is increasing.
 - (d) All of the above.
11. A positive GDP gap exists when :
- (a) Nominal GDP is greater than real GDP.
 - (b) Real GDP is greater than potential GDP.
 - (c) Potential GDP is greater than real GDP.
 - (d) Economic activity is at its full-employment level.
12. Unanticipated inflation is harmful to :
- (a) Retirees whose retirement income is indexed.
 - (b) Debtors.
 - (c) Creditors.
 - (d) Economic growth but has no effect upon individual members of the economy.

Part B (Very Short Answer Type Questions)

*Write any ten questions.
Each question carries 2 marks.*

13. What are the fiscal measures ?
14. What is money Illusion ?
15. Examine the meaning and significance of Pigou effect.
16. Briefly explain the Cambridge cash balance approach.
17. Write a note on Keynes' law of consumption.
18. What is Marginal Efficiency of Investment ?
19. What do you mean by full employment ?
20. What is inflation ?
21. Differentiate between APS and MPS.
22. What is meant by Real Balance Effect ?
23. What are the important factors determining consumption ?
24. Distinguish between Classical and Keynesian aggregate supply curve.

(10 × 2 = 20 marks)

Part C (Short Essay Type Questions)

*Write any six questions.
Each question carries 5 marks.*

25. Distinguish between macroeconomics and microeconomics.
26. Explain the following concepts :
 - (a) GDP.
 - (b) GNP.
 - (c) NNP.
 - (d) Disposable Personal Income.
27. Explain the major pillars of classical economics.
28. Explain the superiority of relative income hypothesis over absolute income hypothesis.
29. Give a brief account on Life Cycle Hypothesis.
30. Explain the difference between nominal GDP, Real GDP and potential GDP.
31. Explain inflationary and deflationary gaps with suitable diagrams.
32. What are the determinants of investments ?

(6 × 5 = 30 marks)

Part D (Essay Type Questions)

*Answer any **two** questions.*

Each question carries 12 marks.

33. What are the methods and problems in estimating national income ?
34. Explain permanent Income hypothesis.
35. Narrate Keynesian theory of employment. What are the shortcomings of Keynesian theory ?
36. Explain the Classical approach to demand for money.

(2 × 12 = 24 marks)