

C 32514

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Name.....

Reg. No.....

**FIRST SEMESTER M.A. DEGREE EXAMINATION, DECEMBER 2017**

(CUCSS)

Economics

EC 01 C02—MACRO ECONOMICS THEORIES AND POLICIES—I

(2015 Admissions)

Time : Three Hours

Maximum : 36 Weightage

**Part A (Multiple Choice Questions)**

*Answer all.*

*Each carries ¼ weightage.*

1. Which of the following is not a conjecture of Keynes' Consumption Function :
  - (a)  $C = f(y)$ .
  - (b)  $0 < MPC > 1$ .
  - (c) MPC and APC is proportional.
  - (d) As Y rises  $c/y$  falls.
2. Ceteris paribus, in the neoclassical ISLM model, fiscal policy leading to the forward shifting of IS schedule cannot alter the level of real national output due to :
  - (a) Price rigidity.
  - (b) Crowding out effect.
  - (c) Increased taxation.
  - (d) Constant interest rate.
3. An increase in the money supply have no effect upon equilibrium income, if :
  - (a) LM is steeply sloped and IS is relatively flat.
  - (b) LM is steeply sloped and IS is vertical.
  - (c) LM is vertical and Is is steeply sloped.
  - (d) LM is relatively flat as the IS.
4. It is impossible to increase the level of output due to monetary policy, if the LM curve is :
  - (a) Perfectly elastic.
  - (b) Perfectly inelastic.
  - (c) Relatively elastic.
  - (d) Relatively inelastic.
5. When planned consumption equals Rs.  $200 + 0.75Y$  and planned investment is Rs. 500, then the equilibrium level of income is :
  - (a) Rs. 2,500.
  - (b) Rs. 3,000.
  - (c) Rs. 2,800.
  - (d) Rs. 2,600.

**Turn over**

6. Accelerator theory of investment explains the net investment in terms of :
- (a) Increases in expected output.
  - (b) Increases in expected income.
  - (c) Increases in expected investment.
  - (d) Increases in expected inflation.
7. If APC declines as Y increases, the consumption function is said to be :
- (a) Linear.
  - (b) Non-linear.
  - (c) Proportional.
  - (d) Non-proportional.
8. At full employment level of output, the aggregate supply function in the Keynesian ISLM model becomes :
- (a) Perfectly elastic at fixed price.
  - (b) Perfectly elastic at flexible price.
  - (c) Perfectly inelastic at fixed price.
  - (d) Perfectly inelastic at flexible price.
9. The terms inside money and outside money are introduced by :
- (a) Pigou.
  - (b) Patinkin.
  - (c) Gurley and Shaw.
  - (d) Radcliff and Sayers.
10. IS Curve shift forward when :
- (a) Investment function shift backward and saving function shift forward.
  - (b) Investment function shift forward and saving function shift forward.
  - (c) Investment function shift backward and saving function shift backward.
  - (d) Investment function shift forward and saving function shift backward.
11. The term "neutral money" was initially coined by :
- (a) Milton Friedman.
  - (b) A. C. Pigou.
  - (c) Friedrich Hayek.
  - (d) James Tobin.
12. Friedman's restatement of quantity theory of money differs from Keynesians :
- (a) Specification of variables.
  - (b) Velocity can be predicted.
  - (c) Velocity cannot be predicted.
  - (d) Money supply is exogenous.

**Part B (Very Short Answer Questions)**

*Answer any five.*

*Each carries 1 weightage.*

13. Money neutrality.
14. Fisher effect.
15. Tobin's Q.
16. Consumption puzzle.
17. Inter-temporal choice.
18. Walras' Law.
19. Taylor rule.
20. Absolute Income hypothesis.

(5 × 1 = 5 weightage)

**Part C (Short Answer Questions)**

*Answer any eight.*

*Each carries 2 weightage.*

21. Write a note on Ricardian Equivalence theorem.
22. What is meant by inflation targeting ?
23. What is money multiplier ?
24. Distinguish between Keynes effect and Fisher effect.
25. What are the inconsistency between Say's law and the quantity theory of money ?
26. Explain behavioural model of money supply.
27. Describe Arrow-Debreu model.
28. What is Patinkin's real balance effect ?
29. Explain Insider-Outsider Model.
30. Describe multiplier-accelerator interaction model.
31. Illustrate ISLM Model.

(8 × 2 = 16 weightage)

**Turn over**

**Part D (Essay Questions)**

*Answer any four.*

*Each carries 3 weightage.*

32. Compare and contrasts Baumol, Tobin and Friedman's theory of demand for money.
33. Describe the significance of monetary and fiscal policy mix to control inflation using ISLM model.
34. Examine the improvements of Permanent Income Hypothesis over Life Cycle Hypothesis.
35. Explain the objectives of macro economic policy. Evaluate the role of Central Banks on macro economic stabilization.
36. Illustrate General Equilibrium model. Examine neo-classical and Keynesian version of ISLM model.

(4 × 3 = 12 weightage)