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Name.....

Reg. No.....

FIRST SEMESTER M.A. DEGREE EXAMINATION, DECEMBER 2015

(CUCSS)

Economics

ECO 1C 02—MACRO ECONOMIC THEORY AND POLICY—I

(2010—2014 Admissions)

Time : Three Hours

Maximum : 36 Weightage

Part A

Answer all questions.

Each bunch of four questions carries a weightage of 1.

I. Multiple Choice :

1 The equation $C = Rs. 200 + 0.5 Y_d$ predicts that consumption is :

- (a) Rs. 150 when disposable income is Rs. 300.
- (b) Rs. 500 when disposable income is Rs. 450.
- (c) Rs. 450 when disposable income is Rs. 500.
- (d) Rs. 150 when disposable income is Rs. 200.

2 Liquidity trap gives rise to :

- (a) Vertical LM schedule. (b) Vertical IS schedule
- (c) Horizontal LM schedule. (d) Horizontal IS schedule.

3 According to the Life Cycle Hypothesis, consumption is related to :

- (a) Current Income. (b) Past Peak Income.
- (c) Expected Lifetime Income. (d) Life time price expectations.

4 In the long run, the Keynesian aggregate supply curve is :

- (a) Downward sloping, because product prices are fixed.
- (b) Upward sloping, because factor prices are fixed.
- (c) Vertical, because rate of unemployment is fixed.
- (d) Horizontal, because the price level is fixed.

II. Multiple Choice Questions :—

5 The term notional demand was coined by :

- (a) Leon Walras. (b) J. B. Say.
- (c) R. W. Clower. (d) R. E. Lucas.

Turn over

- 6 Prices fails to establish market clearing general equilibrium, therefore, quantities has to adjust to have a market clearing equilibrium, is focus of :
- (a) Neo-Keynesians. (b) New Keynesians.
(c) New Classicalist. (d) New Macro Economics.
- 7 Permanent Income Hypothesis by Milton Friedman states that :
- (a) Positive transitory income are consumed.
(b) Positive transitory income are saved.
(c) Positive transitory income are neither consumed nor saved.
(d) None of these.
- 8 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.

III. Fill in the blanks :—

- 9 The Unemployment, which is the outcome of job search by both workers and employers characterised by imperfect information, is called _____.
- 10 In a Three-sector economy, the coefficient of *balanced budget multiplier* is equal to _____.
- 11 Consumption is a function of the households utility maximizing behaviour and life time income is the idea behind _____.
- 12 Relative Income Hypothesis was developed by _____.

IV. State whether the following statements are True or False :—

- 13 LM Curve shift forward when demand for money function shift forward and supply of money function shift forward.
- 14 It is impossible to increase the level of output due to monetary policy, if the LM curve is perfectly inelastic.
- 15 The demand and supply plans of individuals at market clearing price is termed as 'notional demand'.
- 16 In the Keynesian open economy model, the central bank cannot sterilize the effect of the BOF on the money stock.

(16 × ¼ = 4 weightage)

Part B

*Answer any ten questions.
Each question carries a weightage of 2.*

- 17 Distinguish between linear and non-linear consumption function.
- 18 What is Absolute Income Hypothesis ?
- 19 What are the significances of Rational Expectation Hypothesis ?
- 20 What are the salient features of supply side economics ?
- 21 What is monetarism ?
- 22 State dual decision hypothesis.
- 23 Distinguish between notional demand and effective demand.
- 24 Explain financial instability theory.
- 25 What is insider-outsider model ?
- 26 Distinguish between voluntary and involuntary unemployment.
- 27 What is Tobin's 'Q' ?
- 28 Bring out the taxonomy of non-market clearing states.
- 29 Examine the case of shifting and elasticities of IS Curve ?
- 30 Examine the interaction between Multiplier and Accelerator.

(10 × 2 = 20 weightage)

Part C

*Answer any three questions.
Each question carries a weightage of 4.*

- 31 Explain Lucas' inter-temporal substitution model.
- 32 Examine the contributions of New Keynesian economists.
- 33 Illustrate Keynesian Cross. Bring out its implications.
- 34 State Walrasian General Equilibrium.
- 35 Describe Permanent Income Hypothesis.

(3 × 4 = 12 weightage)