D 93156   (Pages : 4)   Name...................................

Reg. No...............................

FIRST SEMESTER M.A. DEGREE EXAMINATION, DECEMBER 2015

(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** *questions. Each carries ¼ weightage.*

1. 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.

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. The demand for money is :

    (a) Positively related Income Y and rate of interest r.

    (b) Negatively related Income Y and rate of interest r.

    (c) Negatively related Income Y and positively to rate of interest r.

    (d) Positively related Income Y and negatively to rate of interest r.

Turn over

6. IS function shift forward, when investment function shift :

    (a) Forward.

    (b) Backward.

    (c) Remain the same.

    (d) None of these.

7. At liquidity trap, the speculative demand for money is :

    (a) Inelastic.

    (b) Elastic.

    (c) Perfectly inelastic.

    (d) Perfectly elastic.

8. A money supply increase shifts LM Function rightward by $\Delta M (1/k)$ with the actual change in equilibrium income closely approximating the shift of LM when :

    (a) LM is steeply sloped and IS is steeply sloped.

    (b) LM is relatively flat as is IS.

    (c) LM is steeply sloped and IS is relatively falt.

    (d) LM is relatively falt and IS is steeply sloped.

9. When there is no change in Central Banking holdings of international reserve balances, a country's ?

    (a) Trade balance always equals 0.

    (b) Current account balance always equals 0.

    (c) Capital account balance always equals 0.

    (d) Balance of payment always equals 0.

10. Disinflationary demand-management policies :

    (a) Achieve a lower rate of inflation without causing a decrease in output.

    (b) Reduce output but have no initial effect on the inflation rate.

    (c) Require an increase in government spending.

    (d) Require a reduction in the growth rate of the nominal money supply.

11. According to Permanent Income Hypothesis, all increase in :

    (a) Permanent income are saved.

    (b) Permanent income are consumed.

    (c) Transitory income are saved.

    (d) Transitory income are consumed.

12. Tobin's q theory of investment indicates that firms add to their stock of capital when :

    (a) The replacement value of their real assets exceed the market value of their financial assets.

    (b) The market value of their financial assets exceed the replacement value of their real assets.

    (c) The market value of their real assets exceed the book value of their financial assets.

    (d) The market value of their financial assets exceed the book value of their real assets.

                                                      (12 × ¼ = 3 weightage)

Part B

Very Short Answer Questions.
Answer any **five** *questions.*
Each carries 1 *weightage.*

13. Classical dichotomy.

14. Fisher's equation.

15. Keynes effect.

16. Liquidity trap.

17. High Powered Money.

18. Linear consumption function.

19. Permanent Income.

20. IS Curve

                                                      (5 × 1 = 5 weightage)

Part C

Short Answer Questions.
Answer any **eight** *questions.*
Each carries 2 *weightage.*

21. What are the instruments of fiscal policy ?

22. Write a note on crowding out effect and government budget.

23. Evaluate the effectiveness of monetary policy is an ISLM framework.

24. Explain Kuznet's consumption puzzle.

25. Explain Tobin's 'q' ratio.

26. Explain Keynesian theory of investment.

27. What is money multiplier ? What are its determinants ?

                                                      Turn over

28. Describe Radcliff-Sayer's version of Liquidity theory.

29. Examine Baumol's inventory theory.

30. Explain Life Cycle Hypothesis.

31. Evaluate Arrow-Debreu Model.

(8 × 2 = 16 weightage)

Part D

Essay Questions.
Answer any **four** *questions.*
Each carries 3 weightage.

32. Illustrate three sector macro economic model in an ISLM framework.

33. Describe the permanent income hypothesis of Milton Friedman. Bring out its improvements over other hypothesis.

34. Examine the significance of macro economic policies in Indian economy at present.

35. Define quantity theory of money. Explain Friedman's re-statement of quantity theory of money.

36. Critically examine the need of Central Banks autonomy.

(4 × 3 = 12 weightage)