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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 Yd 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 *[text cut off]* 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 shift *[text cut off]* 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 emplo*[text cut off]* characterised by imperfect information, is called ————.

10 In a Three-sector economy, the coefficient of *balanced budget multiplier* is equa*[text cut off]*

————.

11 Consumption is a function of the households utility maximizing behaviour and life t*[text cut off]* 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 *[text cut off]* function shift forward.

14 It is impossible to increase the level of output due to monetary policy, if the LM *[text cut off]* perfectly inelastic.

15 The demand and supply plans of individuals at market clearing price is termed as *[text cut off]* demand'.

16 In the Keynesian open economy model, the central bank cannot sterilize the effect of *[text cut off]* on the money stock.

Part B

17 Distinguish between linear and non-linear consumption functions.

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

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)