

**FOURTH SEMESTER B.A. DEGREE EXAMINATION (CCSS), MARCH 2013**

**Economics**

**BC4 B06 – MACROECONOMICS - II**

**Time : Three Hours**

**Maximum : 30 Weightage**

**Section A**

**Answer all twelve questions**

**I. Objective type questions. Answer all twelve questions :**

**A. Multiple choice questions :**

1. The ratio of a country's trade (exports plus imports) to its GDP :  
(a) Openness index (b) Liquidity index  
(c) Foreign exchange index (d) SDR
2. A very rapid inflation, sometimes defined as a rate of more than 22 per cent per month, of 1000 per cent per year or more :  
(a) Real inflation (b) Bottleneck inflation  
(c) Inflationary gap (d) Hyper inflation
3. The average number of times per year that the money stock is used in making payments for final goods and services.  
(a) Velocity of money (b) Liquidity of money  
(c) Real balance (d) Nominal balance
4. Lowest point reached by real output in each business cycle.  
(a) Recession (b) Boom  
(c) Trough (d) Downswing

**B. Fill in the blanks :**

5. \_\_\_\_\_ is a term refers to money that is not a liability for anyone in the economy. It is held in an economy in net positive amounts.
6. \_\_\_\_\_ exchange rate system is the system in which the foreign exchange rate is free to change every day.
7. \_\_\_\_\_ is the prediction that a one percentage point increase in the expected inflation rate will raise the nominal interest rate by one percentage point, leaving the real expected interest rate unaffected.
8. \_\_\_\_\_ is an index that measures and tracks the changes in price of goods in the stages before the retail level.

**C. Name the following :-**

9. The number of percentage points of a year's real GDP that must be foregone to reduce inflation by one point.
10. The sum of currency in circulation and bank reserves is called :
11. The simultaneous occurrence of high inflation and high unemployment.
12. The ratio of the number unemployed to the number in the labour force, expressed as a percentage.

(12 X ¼ = 3 weightage)

**II. Short answer type questions. Answer all nine questions :**

13. What is meant by fiat money ?
14. Define the concept of secular stagnation.
15. Define inflation rate.
16. Define Balance of Payments.
17. State the Okun's law.
18. Define Reflation.
19. Explain Crowding out effect.
20. What are the arguments of Keynes for Fiscal policy and fine-tuning ?
21. What do you mean by 'Bubble' in financial market ?

(9X1 = 9 weightage)

**III. Short Essay or paragraph question. Answer any five questions from seven.**

22. Explain the algebra of IS and LM curves in a four sector macroeconomic model.
23. What is meant by Monetarist counterrevolution ? Explain the fundamental postulates of Monetarism.
24. What is Monetary policy ? Explain the instruments of monetary policy.
25. Explain the relevance of Fisher's equation of exchange in classical theory.
26. Distinguish between Keynesian transaction demand for money and speculative demand for money.
27. Distinguish between cost push and demand pull inflation.
28. Explain the Cambridge version of quantity theory of money .

(5X2 = 10 weightage)

**IV. Essay questions. Answer two questions from three.**

29. Explain the meaning, types and effects of inflation.
30. Explain the concept of business cycle. Illustrate the different stages of business cycle with historical examples.
31. Explain the Keynesian liquidity preference theory and liquidity trap.

(2X4 = 8 weightage)