FIRST SEMESTER M.A. (CUCSS) DEGREE EXAMINATION, DECEMBER 2015

Applied Economics

Paper II—MACROECONOMIC THEORY

Time : Three Hours   Maximum : 36 Weightage

Part A

Answer all questions.
Each bunch of four questions carries weightage 1.

(A) Multiple choice :

1 Expansionary monetary policy :

    (a)   Tends to lead to an appreciation of a nation's currency.

    (b)   Usually has no effect on a currency's exchange value.

    (c)   Tends to lead to a depreciation of the currencies of other nations.

    (d)   Tends to lead to a depreciation of a nation's currency.

2 If the number of people classified as unemployed is 20,000 and the number of people classified as employed is 2,30,000, what is the unemployment rate ?

    (a) 8%.   (b) 8.7%.

    (c) 9.2%.   (d) 11.5%.

3 The ratio of the change in the equilibrium level of income to a change in some autonomous increase in spending is the :

    (a) Elasticity coefficient.   (b) Multiplier.

    (c) Automatic stabilizer.   (d) Marginal propensity of the autonomous variable.

4 It is often true that as the economy begins to recover from a recession the unemployment rate rises. Which of the following statements would be the best explanation for this ?

    (a)   The unemployment rate would rise because as the economy initially recovers from a recession the demand for goods and services falls, so the demand for workers falls.

    (b)   As the economy begins to recover from a recession, workers who were previously discouraged about their chances of finding a job begin to look for work again.

    (c)   The unemployment rate seems to rise as the economy begins to recover from a recession because of errors in the way the data are collected.

    (d)   As the economy initially recovers from a recession, firms do not immediately increase the number of workers they hire. Firms wait to hire more individuals until they are convinced that the recovery is strong.

Turn over

(B) Multiple choice :

   5 The factor that makes national saving equal investment, in equilibrium, is :

       (a) The interest rate.   (b) Private saving.

       (c) Public saving.   (d) Fiscal policy.

   6 Firms react to unplanned increases in inventories by :

       (a)   Reducing output.

       (b)   Increasing output.

       (c)   Increasing planned investment.

       (d)   Increasing consumption.

   7 If the interest rate falls, then :

       (a)   Bond prices will remain the same.

       (b)   Bond prices will rise.

       (c)   Bond prices will fall.

   8 If the quantity of money demanded is less than the quantity of money supplied, then the interest rate will :

       (a)   Either increase or decrease, depending on the amount of excess demand.

       (b)   Increase.

       (c)   Decrease.

       (d)   Not change.

(C) Fill in the blanks :

   9 A bank has excess reserves to lend but is unable to find anyone to borrow the money. This will _____ the size of the money multiplier.

   10 While the study of economic activities of individuals, households, and businesses at the sub-national level is the concern of _____ , the study of economic activities at the national and global level is the concern of _____

   11 The sale of government securities by the **RBI** will definitely lead to an _____ in the equilibrium interest rate.

   12 The school of economics that is associated with the idea that individual self- interest is a positive force and that governments should let markets function without interference is called _____

(D) State whether the following statement is true *or* false :

      13 Keynes argued for supply side economics.

      14 Real balance effect is patinkins contribution.

      15 Pump priming is a monetary tool.

      16 The term Notional demand was coined by Friedman.

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$(16 \times \frac{1}{4} = 4$ weightage)
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Part B (Short Answer Questions)

Answer any **ten** *not exceeding* **one page** *each.*

      17 Explain Laffer curve.

      18 Briefly explain Philips Curve.

      19 Outline Marshall Lerner condition.

      20 Explain inflation.

      21 What is Dual Decision Hypothesis ?

      22 What are real rigidities ?

      23 Explain co-ordination failure.

      24 Briefly analyse inside money and outside money.

      25 Explain natural rate theory.

      26 Consumption function.

      27 Financial intermediation.

      28 Devaluation and its impact on BOP.

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$(10 \times 2 = 20$ weightage)
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Part C (Essay/Problems)

Answer any **two** *questions.*
Each question carries 6 *marks.*

      29 Examine reinterpretation models and facilitate a critical analysis on these models.

      30 Analyse neo classical and neo Keynesian theories and comment on the similarities and differences.

      31 Trace out the developments macroeconomic developments of the Indian economy.

      32 Discuss the fundamentals of ISLM analysis and its different versions.

      33 Discuss the Keynesian approach to BOP.

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$(2 \times 6 = 12$ weightage)
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