FIRST SEMESTER M.A. DEGREE EXAMINATION, DECEMBER 2014

(CUCSS)

Applied Economics

Paper II—MACRO ECONOMIC THEORY

Time : Three Hours   Maximum : 36 Weightage

Part A

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

A. Multiple Choice :

1 Devaluation will be helpful in reducing BOP deficits of a country, if the sum of the elasticity of exports and imports is :

    (a) Greater than one.   (b) Less than one.

    (c) Equal to one.   (d) Zero.

2 In an economy with MPC being 0.75, the increase in investment of Rs. 10 crores will lead to an increase in income to :

    (a) Rs. 50 crores.   (b) 75 crores.

    (c) Rs. 40 crores.   (d) Rs. 80 crores.

3 Real Balance Effect is associated with :

    (a) A.C. Pigou.   (b) D. Patinkin.

    (c) Adam smith.   (d) J.M. Keynes.

4. What will happen to the rate of interest when there is an expansionary monetary policy and a contractionary fiscal policy ?

    (a) Declines.   (b) Increases.

    (c) Remains unchanged.   (d) Becomes zero.

B. Multiple Choice

5 When planned consumption equals Rs. 40 + 0.80 Yd and planned investment is Rs. 60, the equilibrium level of income is :

    (a) Rs. 100.   (b) Rs. 500.

    (c) Rs. 400.   (d) Rs. 800.

Turn over

6 Under a floating exchange rate system, a deficit in a nation's balance of payment is automatically corrected by:

    (a) A depreciation of its currency. (b) An appreciation of its currency.

    (c) Domestic inflation.   (d) A rise in national income.

7 Laffer curve is related to :

    (a) Supply side economics.   (b) Real business cycles.

    (c) Monetarism.   (d) Rational expectations.

8 Which among the following is not a monetary policy tool ?

    (a) CRR.   (b) Open market operation.

    (c) Pump priming.   (d) Margin requirement.

C. Fill in the Blanks :

9 "Money, Interest and Prices" was written by ————

    (a) J.M. Keynes.   (b) Don Patinkin.

    (c) A.C. Pigou.   (d) J.B. Say.

10 The inverse relationship between unemployment and inflation is shown by ———— curve.

    (a) Laffer curve.   (b) Phillips curve.

    (c) AS curve.   (d) AD curve.

11 The term 'notional demand' was coined by ————

    (a) Walras.   (b) Clower.

    (c) J. B. Say.   (d) Friedman.

12 According to Friedman the quantity theory of money is basically a theory of ————

    (a) Aggregate demand.   (b) The demand for money.

    (c) National Income.   (d) Price level.

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

7 Fiscal policy is ineffective when the LM curve becomes vertical.

8 According to Friedman, consumption is determined by life time income.

9 Rational expectation is associated with New classical.

10 The accelerator measures the effect of consumption on income.

                                       (14 x ¼ = 4 weightage)

Part B (Short Answer Questions)

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

17 Explain inside money and outside money.

18 What is Tobin's q-ratio ? Explain its implications.

19 What are the major propositions of new classical economics ?

20 In what circumstances would you advise the RBI to conduct open market sales ? Why ?

21 What is meant by classical dichotomy ?

22 Explain liquidity trap and its implications.

23 Explain the dual decision hypothesis.

24 Enumerate the Marshall Lerner conditions.

25 Explain Real Balance Effect.

26 What is the essence of supply side economics ?

27 Do you think that devaluation will lead to an increase in the exports of a country ? Why ?

28 What is meant by micro foundations of macro economics ?

(10 x 2 = 20 weightage)

Part C (Essay Questions)

Answer any **three** *not exceeding* **three pages** *each.*

29 How does the permanent income hypothesis differ from life cycle hypothesis ?

30 Explain the Neo-Keynesian quantity constrained models.

31 Discuss the Mundel Fleming open economy model.

32 Explain the fiscal and monetary policy analysis using the IS-LM model.

33 Give a brief review of the recent controversies in macroeconomics.

(3 x 4 = 12 weightage)