

FIRST SEMESTER M.A. DEGREE EXAMINATION, NOVEMBER 2022
(Regular/Improvement/Supplementary)

ECONOMICS
FECO1C02-MACROECONOMICS: THEORIES AND POLICIES I

Time: 3 Hours

Maximum Weightage: 30

Part A: Multiple choice questions. Answer *all* questions. Each carries $\frac{1}{5}$ weightage.

1. 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
2. The relationship between inflation and both real and nominal interest are proposed by
 - a) Irvin Fisher
 - b) Keynes
 - c) Hicks
 - d) Friedman
3. The rational expectation hypothesis is developed by
 - a) Friedman
 - b) John Muthu
 - c) Phillip
 - d) None of the above
4. A fall in the money supply results in the
 - a) Rightward shift in the IS curve
 - b) Rightward shift in the LM curve
 - c) Leftward shift in the IS curve
 - d) Leftward shift in the LM curve
5. The elasticity in respect of speculative demand for money under the liquidity trap conditions is
 - a) Zero
 - b) One
 - c) Greater than one
 - d) Infinite
6. In IS-LM analysis the demand for money is the function of
 - a) Income
 - b) Rate of interest
 - c) Both a and b
 - d) Supply of money
7. Permanent income according to Friedman includes
 - a) Human wealth
 - b) Non-human wealth
 - c) Both (a) and (b)
 - d) None of these
8. Which of the following is not conjecture of Keynesian consumption function
 - a) $C = f(Y)$
 - b) $0 < MPC < 1$
 - c) MPC and APC are proportional
 - d) APC falls as Y increases

(P.T.O.)

9. Speculative demand for money would increase if
 - a) Price of securities are expected to rise
 - b) Prices of goods are expected to fall
 - c) Interest rate is expected to be constant
 - d) Interest rate is expected to rise
10. The relationship between investment and income is defined as
 - a) Multiplier
 - b) Keynes effect
 - c) Sacrifice ratio
 - d) None of the above
11. A contractionary fiscal policy is
 - a) Low tax and high public expenditure
 - b) High tax and high public expenditure
 - c) High tax and low public expenditure
 - d) All the above
12. Unemployment in Keynesian model is caused by
 - a) Demand deficiency
 - b) Demand sufficiency
 - c) Supply deficiency
 - d) Supply sufficiency
13. Accelerator theory of investment explains the net investment in terms of
 - a) Increase in expected output
 - b) Increase in expected income
 - c) Increase in expected investment
 - d) Increase in expected inflation
14. Political business cycle theory is associated with
 - a) Paul Samuelson
 - b) Nordhaus
 - c) J M Keynes
 - d) Hayek
15. When the economy is weakening, the Taylor rule advocates
 - a) Contractionary monetary policy
 - b) Contractionary fiscal policy
 - c) Expansionary monetary policy
 - d) Expansionary fiscal policy

(15 × 1/5 = 3 weightage)

Part B: Answer any *five* questions. Each carries *one* weightage.

16. What is money illusion?
17. Examine the various phases of trade cycle.
18. Give a brief note on expectation augmented Philips curve.
19. Distinguish between inside and outside lags in government policy.
20. What are the instruments of fiscal policy?
21. Examine absolute income hypothesis.
22. Write a short note on Ratchet effect.
23. Explain the crowding out effect.

(5 × 1 = 5 weightage)

Part C: Answer any *seven* questions. Each carries *two* weightage.

24. Explain Keynesian theory of business cycle.
25. Define the IS curve. Derive it graphically. Explain the relationship between the interest rate and income.
26. Explain the H theory of money supply.
27. Describe Baumol's inventory theory.
28. Examine real business cycle model.
29. Elaborate on the factors that determine the slope of IS-LM model.
30. Discuss the model of inter temporal choice in consumption.
31. State Ricardian equivalence theorem.
32. Explain the objectives of macroeconomic policy.
33. Examine adaptive expectation model.

(7 × 2 = 14 weightage)

Part D: Answer any *two* questions. Each carries *four* weightage.

34. "Trade off between Inflation and Unemployment is a short run phenomenon which ceases to exist in the long run". Explain.
35. What is meant by consumption puzzle? How it is solved by Friedman?
36. Critically examine the accelerator theory investment.
37. Explain the effectiveness of fiscal and monetary policy with the help of IS-LM model.

(2 × 4 = 8 weightage)