FIRST SEMESTER M.A. DEGREE EXAMINATION, NOVEMBER 2023
(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. In the Cambridge equation of M= kPR, the value of k is
   a) V in Fisher's equation   b) 1/V
   c) M/V   d) none of these

2. The marginal efficiency of capital (MEC) increases when
   a) capital stock increases   b) capital stock decreases
   c) capital stock remains constant d) all the above

3. According to life-cycle hypothesis, consumption is related to
   a) current income   b) past peak income
   c) expected life time income   d) price expectations over one's life time

4. Which of the following groups are adversely affected by inflation?
   1. Wage earners in the informal sector.
   2. Profit earners.
   3. Salary earners with salaries indexed to inflation.
   4. Pensioners with fixed pensions.
   Select the correct answer using the code given below:
   a) 1 and 2   b) 3 and 4   c) 1 and 4   d) 2 and 3

5. The Phillips curve deals with relationship between which of the following?
   1. wages and price level
   2. Price level and unemployment
   3. Unemployment and inflation
   4. wages and deflation
   Select the correct answer using the codes given below:
   a) 1, 2 and 3   b) 2 and 3   c) 3 only   d) 4 only

6. From a monetarist point of view, which one of the following statements about inflation is not correct?
   a) Inflation is a direct outgrowth of the attempts of greedy business entrepreneurs and unscrupulous unions to raise their prices and wages.
   b) Inflation is a monetary phenomenon in all economies.
   c) If an experience of inflation caused an increase in the expected rate of inflation, those expectations of more inflation would tend to be self-fulfilling.
   d) Although unions may protect the high prices of union-made goods, only macro-policy makers are normally responsible for perpetuation inflation.

(P.T.O.)

7. The theory of trade cycle developed by Hawtrey was:
   a) under consumption theory   b) over investment theory
   c) innovation theory   d) purely monetary theory

8. Real business cycle theory is associated with:
   a) Mankiw and Romber   b) Hicks   c) Samuelson   d) Goodwin

9. In the real business cycle model, business cycles are:
   a) efficient and do not represent lost output   b) driven by technology shocks
   c) occur when markets clear   d) all of the above

10. Consider the following statements.
    1. If government expenditure increases the IS curve shifts to the right.
    2. If the taxes increase the IS curve shifts to the right.
    3. If the price level increases the LM curve shifts to the left.
    4. The more interest elastic the investment function, the more interest elastic will be the IS curve.
    Which of the above statements is/are correct?
    a) 2, 3 and 4   b) 1, 3 and 4   c) 1 and 2   d) 2 alone

11. The situation which arises at a very low rate of interest, when the LM curve is a horizontal straight line is known as…………
    a) liquidity trap   b) liquidity preference
    c) liquidity ratio   d) none of the above

12. If money supply rises, then in the ISLM framework which one of the following statements is correct?
    (a) LM curve shifts to the right.
    b) IS curve shifts to the right.
    c) IS and LM curves both shift to the right.
    d) LM curve does not undergo any change.

13. Reserve Bank of India would like to increase the cash reserves of the commercial banks. Which among the following would be most appropriate action of the RBI to achieve this aim?
    a) Release gold from its reserves.
    b) Buy government bonds in the open market.
    c) Profit transactions involving bills of exchange.
    d) Increase the cash reserve ratio.

14. Crowding out is more likely to occur when:
    a) the demand for money is interest sensitive and private sector pending is largely interest insensitive.
    b) the demand for money is interest sensitive and private sector spending is interest sensitive.
    c) the demand for money is interest insensitive and private sector spending is interest insensitive.
    d) the demand for money is interest insensitive and private sector spending is interest sensitive.

15. How does an expansionary monetary policy affect the rate of interest and level of income?
    a) Raises the rate of interest and raises the level of income.
    b) Raises the level of income but lowers the rate of interest.
    c) Raises the rate of interest but lowers the level of income.
    d) Lowers both the rate of interest and level of income.

$(15 \times {}^{1}\!/_{5} = 3$ weightage)

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

16. What is Fisher effect?

17. Define the concept 'user cost of capital'.

18. What is meant by Okun's law?

19. Define NAIRU.

20. What causes cyclical fluctuations according to Hawtrey?

21. What are the policy implications of vertical LM curve?

22. How does an expansionary fiscal policy affect the rate of interest and level of income?

23. Distinguish between target variable and instrumental variable.

(5 × 1 = 5 weightage)

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

24. What is the theory of liquidity preference? How does it help explain the downward slope of the aggregate demand curve?

25. Explain the relationship between output and investment implied by the accelerator theory. How do costs of adjustment affect the model?

26. Explain the concept of the Phillips curve. Is there any difference between monetarist and Keynesian views of the Phillips curve?

27. Explain the concept of rational expectations. How does this view of how expectations are formed differ from the assumption made in adaptive expectations hypothesis?

28. What might motivate a central banker to cause a political business cycle? What does the political business cycle imply for the debate over policy rules?

29. Explain the over investment theory of Hayek.

30. Explain the three-sector macro model with Keynesian and neoclassical versions using ISLM framework.

31. Describe the extension of IS-LM models with labour market and flexible prices.

32. What causes lags in the effect of monetary and fiscal policy on aggregate demand?

33. What is Ricardian equivalence?

(7 × 2= 14 weightage)

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

34. What do you mean by Kuznet's consumption puzzle? Explain the solution to the puzzle given by James Duesenberry and Milton Friedman.

35. "Economics profession which, as a result of foolish mistakes, had accepted the Phillips curve as offering a lasting trade-off between inflation and unemployment" Explain.

36. Explain the business cycle models of Samuelson, Hicks and Kaldor.

37. Describe the relative effectiveness of fiscal and monetary policies using ISLM.

(2 × 4 = 8 weightage)