D1AEC2402 (3 Pages) Name.............................
Reg.No..........................

**FIRST SEMESTER M.A. DEGREE EXAMINATION, NOVEMBER 2024**
**(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 $^1/_5$ weightage.**

1. Money Supply is directly proportional to …………

   a) Cash reserve ratio (r) b) Monetary base (H)
   c) Currency deposit ratio (k) d) Money Multiplier (m)

2. The IS curve will shift to the right when there is ………….

   a) an increase in the money supply. b) an increase in government spending.
   c) a reduction in the interest rate. d) all of the above.

3. Which among the following is the assumption of real business cycle theory?

   a) The economy is subject to irregular monetary shocks.
   b) Substantial technological shocks will affect the whole economy.
   c) It explains long run economic fluctuations.
   d) None of the above.

4. When too many funds are hunting down too few goods, the probable result of inflation is recognized as ………….

   a) Deflation b) Cost-push inflation
   c) Stagflation d) Demand-pull inflation

5. The higher the rate of unemployment, ……………

   a) the smaller is the GDP gap. b) the larger is the GDP gap.
   c) the lower is the level of potential GDP. d) the lower is the level of potential GDP.

6. When the economy is on the long- run Philips Curve:

   a) We are at full employment.
   b) The unemployment rate is at its natural rate.
   c) Any rate of inflation could be consistent with the current rate of unemployment.
   d) All the above.

7. As per the 'q' theory of investment firm's can increase their stock by purchasing new capital only when:

   a) $q < 1$ b) $q= 1$ c) $q >1$ d) $q < 0$

**(P.T.O.)**

8. Under which of the following approaches Phillips Curve analysis holds well? (a) Adaptive expectation (b) Rational expectation. Choose the correct option.

   a) Only (a)   b) Only (b)   c) Both (a) and (a)   d) Neither (a) nor (b)

9. With reference to ISLM, fiscal expansion will shift:

   a) The IS curve to the left   b) The IS curve to the right
   c) The LM curve to the left   d) The LM curve to the right

10. The quantity demanded of money rises:

    a) As the interest rises   b) As the interest falls
    c) As the supply of money falls   d) As the number of banks rises

11. Crowding out is more likely to occur when …………

    a) The demand for money is interest insensitive and private sector spending is largely interest sensitive.
    b) The demand for money is interest sensitive and private sector spending is largely interest insensitive.
    c) Both the demand for money and private sector spending are interest sensitive.
    d) Both the demand for money and private sector spending are interest in sensitive.

12. The portfolio approach to the demand for money is related to which of the following?

    a) Speculative demand   b) Transaction demand
    c) Precautionary demand   d) Aggregate demand

13. The initial effect of an increase in money supply is to:

    a) Increase the interest   b) Increase the price level
    c) Decrease the price level   d) Decrease the interest rate

14. An increase in output and employment in the economy which arise out of increasing consumption demand and rise in real wealth is called ………….

    a) Demonstration   b) Keynes effect
    c) Income effect   d) Pigou effect

15. Accelerator theory of investment is the ratio of:

    a) Change in income to change investment.
    b) Change in investment to change in income.
    c) Change in income to change in interest.
    d) None of the above.

**(15 × $^1/_5$= 3 weightage)**

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

*Write short notes on:*

16. Psychological law of consumption.
17. NAIRU.
18. Political business cycle.
19. Okun's law.
20. Taylor's rule.
21. General equilibrium.
22. Tobin's q ratio.
23. Crowding out effect.

**(5 × 1 = 5 weightage)**

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

24. Examine how Friedman re-stated the quantity theory of money.
25. Illustrate ISLM model.
26. Discuss the innovation theory of Schumpeter.
27. Eluciate Fisher's Inter temporal choice model.
28. Discuss the importance of Central Bank autonomy in the present scenario.
29. Examine Keynesian approach to inflation.
30. Discuss Hawtray theory of business cycle.
31. Eluciate the concept of adaptive expectation and rational expectation.
32. Write a note on Ricardian equivalence theorem.
33. Compare relative and life cycle income hypothesis.

**(7 × 2= 14 weightage)**

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

34. Explain the relative effectiveness of monetary and fiscal policy with ISLM model.
35. Examine Keynesian and neo,-classical version of three sector model.
36. Compare different approaches to demand for money.
37. Explain how inflation expectation shapes the relationship between inflation and unemployment.

**(2 × 4 = 8 weightage)**