D1AEC2502 **(4 Pages)** **Name.....**
Reg.No.....

FIRST SEMESTER M.A. DEGREE EXAMINATION, NOVEMBER 2025
(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. The concept of aggregate demand is associated with the name of:

   a) Keynes b) Baumol c) Tobin c) Friedman

2. How is the Tobin's q-ratio calculated?

   a) Book value of assets / Market value of a firm.

   b) Market value of a firm / Book value of assets.

   c) Replacement cost of assets / Market value of a firm.

   d) Market value of a firm / Replacement cost of assets.

3. Central banks control the money supply using the H theory by …….

   a) controlling the amount of high-powered money in circulation.

   b) controlling the exchange rate.

   c) controlling the interest rate.

   d) controlling the amount of bank reserves.

4. Which of the following is a traditional monetary policy instrument?

   a) Fiscal policy b) Income policy

   c) Stabilization policy d) Open market operations

5. The Taylor Rule is based on which of the given two variables?

   a) Fiscal policy and monetary policy b) Fiscal policy and budget deficit

   c) Money supply and price level. d) Inflation and output gap.

6. What is the most vital condition for a valid instrument variable?

   a) It must be uncorrelated with the error term.

   b) It must be exogenous.

   c) It must be correlated with the independent variable.

   d) All the above.

7. What causes the Phillips Curve to shift?

   a) Changes in supply-side factors b) Changes in expectations

   c) Changes in monetary policy d) All of the above

(P.T.O.)

8. What is the role of government in the Keynesian theory of business cycle?

a) To stabilize the economy through fiscal and monetary policies.

b) To let the market forces work without interference.

c) To promote economic growth through deregulation.

d) To redistribute income through taxation and transfer payments.

9. …….. is the well-known model developed by Samuelson.

a) The IS-LM model b) The Solow growth model.

c) The Heckscher-Ohlin model d) All of the above

10. Which of the following is a key tenet of monetarism?

a) The Phillips Curve b) The crowding-out effect

c) The multiplier effect d) The quantity theory of money

11. What is the relationship between unemployment and inflation in the long run, according to the Phillips Curve?

a) There is a trade-off between unemployment and inflation.

b) Unemployment is always at its natural rate.

c) There is no relationship between unemployment and inflation.

d) Inflation is always at its target rate.

12. Kuznets' consumption puzzle is related to?

a) Income inequality b) Technological progress

c) Demographic changes d) All of the above

13. According to the accelerator theory of investment, what happens to investment when output increases?

a) Increases.

b) Decline.

c) Remains unchanged.

d) The relationship between investment and output is unclear.

14. Which of the following is/are example/s of expansionary fiscal policy?

i) Increased government spending on infrastructure.

ii) Tax cuts for businesses and individuals.

iii) Increased government regulation.

iv) Increased interest rates.

a) i & ii b) i c) ii d) ii & iii

15. …….. is the implication of the Ricardian equivalence theorem for fiscal policy.

a) Fiscal policy is ineffective

b) Fiscal policy is less effective than expected

c) the effectiveness of fiscal policy depends on the timing of the deficit

d) the effectiveness of fiscal policy depends on the composition of the deficit

(15 × $^{1}/_{5}$= 3 weightage)

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

Write short notes on:

16. Kuznets's consumption puzzle.
17. Fisher effect.
18. Define Stabilization policy.
19. Okun's Law.
20. Inside and outside lags.
21. Fiscal policy.
22. The purpose of the Taylor Rule.
23. Rules versus discretion.

(5 × 1 = 5 weightage)

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

24. Explain the Permanent income hypothesis.
25. Illustrate the Keynesian theory of the business cycle using a diagram.
26. Define NAIRU and its implications.
27. Briefly explain the policy implications of the crowding-out effect for government spending and taxation.
28. How do Hawtrey's and Hayek's theories differ in terms of their causes and consequences of economic crises?
29. Explain the instruments of monetary and fiscal policy.
30. Critically evaluate the key assumptions of the Neoclassical and Keynesian versions of the three-sector macro model.
31. Describe the Adaptive expectation hypothesis.
32. Write a note on the Structuralist theory of inflation.
33. Explain Keynes's liquidity preference approach.

(7 × 2 = 14 weightage)

(P.T.O.)

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

34. Analyse the Baumol and Tobin model with the help of a diagram.
35. Discuss the effectiveness of monetary and fiscal policy using the IS-LM model.
36. Critically examine the short-run Philips curve with the help of long run Philips curve and modified Philp's curve.
37. Explain the monetary theories of Business Cycles.

(2 × 4 =8 weightage)