

SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2023
(Regular/Improvement/Supplementary)

ECONOMICS
FECO2C06- MACROECONOMICS: THEORIES AND POLICIES II

Time: 3 Hours

Maximum Weightage: 30

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

1. In classical system, which of the following keeps the economy at full employment?
 - a) increase in money supply
 - b) unemployment
 - c) adjustment in investment
 - d) adjustment in money wages
2. Fisher's quantity theory of money has mainly been criticized because
 - a) It does not tell us how the changes in the quantity of money influence the price level.
 - b) It over emphasizes on the demand for money by assuming supply of money as being constant.
 - c) It analyzes only short term variations in the value of money.
 - d) It emphasizes too much on the price level.
3. In Keynesian theory, the supply of labour is determined by
 - a) real wage rate
 - b) money wage rate
 - c) income
 - d) interest rate
4. Which one of the following is a monetarist position?
 - a) Monetary policy should be conducted by discretion.
 - b) Monetary policy is better conducted by fixing interest rate targets.
 - c) No lags involved in the economy.
 - d) Private sector is inherently stable.
5. Which one of the following according to Milton Friedman is not a key determinant of demand for money?
 - a) Aggregate wealth
 - b) Precautionary motive
 - c) Relative rates of return obtainable on different forms of assets
 - d) Physical non-human capital goods and human capital
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. Under the supply side economics,
 - a) there will be a sharp reduction in tax rate.
 - b) interest rate will be reduced.
 - c) wage rates will be lowered.
 - d) all the above.
8. Real business cycle proponents argue that
 - a) recessions are caused by movements of output away from the natural rate of output.
 - b) prices and wages are sticky.
 - c) macroeconomics should be based on the same assumptions as microeconomics.
 - d) monetary policy is important in determining recessions.
9. According to New Classical economists, unemployment is caused by
 - a) real wage falling.
 - b) lack of effective demand.
 - c) rise in money wages.
 - d) market failure.
10. Insider-outsider model was developed by
 - a) Patinkin
 - b) Gurley and Shaw
 - c) Oliver Blanchard and Lawrence Summers
 - d) Mankins and Romer
11. The author of “Keynesian Counter Revolution: A Theoretical Appraisal.”
 - a) Friedman
 - b) Clower
 - c) Patinkin
 - d) Hanson
12. Which one of the following is NOT a new-Keynesian position?
 - a) Non-neutrality of money arises from sticky prices.
 - b) Real market imperfections explain the behaviour of prices in the market.
 - c) Both supply and demand shocks are potential sources of instability.
 - d) Assume perfectly competitive firms rather than price making monopolistic firms.
13. In the politico-economic circular flow model, politicians are driven by
 - a) ideological considerations.
 - b) re-election considerations.
 - c) partisan considerations.
 - d) all the above.
14. The assumption lying behind the argument for greater central bank independence is that
 - a) fiscal policy can be constructed without much political influence.
 - b) central bank become capable of conducting monetary policy in a manner free from opportunistic and partisan influences.
 - c) will help to create more monetary resources for the country.
 - d) none of the above.
15. The author of “The Political Business Cycle.”
 - a) Hibbs
 - b) Nordhaus
 - c) Alesina
 - d) Rogoff and Sibert

(15 × 1/5 = 3 weightage)

Part B: Very short answer questions. Answer any *five* questions. Each carries 1 weightage.

16. What factors are the major determinants of output and employment in the classical system?
17. Briefly explain the political economy of debt and deficits.
18. Elaborate on the concept of natural rate of unemployment.
19. Explain the concept of rational expectations.
20. What do you mean by Laffer curve?
21. Give a brief description of the features of new Keynesian economics.
22. Comment on ‘hysteresis’ theories?

23. What is the relationship between the velocity of money and the Cambridge k ?

(5 × 1 = 5 weightage)

Part C: Short answer questions. Answer any *seven* questions. Each carries 2 weightage.

24. What are the differences between the Fisherian and Cambridge versions of the quantity theory of money?
25. Explain the impact of a negative demand shock on real output and employment in the case of nominal wage rigidity in Keynes's analysis of labour market.
26. Describe the contributions of Keynes to the development of modern international macroeconomics.
27. Explain why monetarists believe that monetary policy affects output and employment in the short run but not in the long run.
28. Describe the monetary approach to balance of payments under fixed exchange rates.
29. Explain the implications of the rational expectations assumption for the effectiveness of economic stabilization policy.
30. Discuss the real business cycle theorists' views on the proper conduct of monetary and fiscal policy.
31. Explain the new Keynesian business cycle theory.
32. Give an account on the Hibbs partisan model.
33. Describe rational political business cycles.

(7 × 2 = 14 weightage)

Part D: Essay questions. Answer any *two* questions. Each carries 4 weightage.

34. Explain Friedman's restatement of the quantity theory of money as a theory of the demand for money.
35. "Output deviates from its natural level only in response to an unexpected increase in the price level." Explain.
36. Give an outline of new Keynesian explanations of real wage rigidity in terms of implicit contract theories, efficiency wage theories and insider-outsider theories.
37. Discuss the Nordhaus opportunistic model.

(2 × 4 = 8 weightage)