D2AEC02302 **(4 Pages)** **Name: ....**

Reg. No.......................

SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2024

(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 $^1/_5$ weightage.

1. Which of the following statements about classical economics is/are true:

   i. Classical analysis was primarily real analysis.
   ii. Most questions in economics could be answered without analyzing the role of money.
   iii. Classical economists mistrusted government and stressed the harmony of individual and national interests when the market was left unfettered by government regulations, except those necessary to ensure that the market remained competitive.

   a) i only b) i and ii c) iii only d) i, ii and iii

2. Which of the following is **not** an assumption of classical macroeconomics?

   (a) economic agents do not suffer from money illusion.
   (b) economic agents decide how much to buy and sell on the basis of a given set of prices which are perfectly flexible.
   (c) trade only takes place when market-clearing prices have been established in all markets.
   (d) economic agents have unstable expectations.

3. Implicit in Keynes's argument in favour of public works programmes to reduce unemployment was ……………

   a) the idea of demand determined output b) the concept of an employment multiplier
   c) both (a) and (b) d) none of these

4. According to Friedman, demand for money depends on:

   a) the wealth constraint, which determines the maximum amount of money that can be held.
   b) the return or yield on money in relation to the return on other financial and real assets in which wealth can be held.
   c) the asset-holder's tastes and preferences.
   d) All the above.

5. According to monetarists, the supply of money influence real variables in the economy ………..

   a) only in the short run b) only in the long run
   c) both in the short run and the long run d) neither in the short run nor in the long run

(P.T.O.)

6. The dominant factor causing cyclical movements in output and employment according to monetarists is …………..

   a) private investment b) government policies c) money d) savings

7. According to the rational expectations hypothesis, expectations are:

   a) essentially the same as the predictions of the relevant economic theory.
   b) formed on the basis of all available relevant information concerning the variable being predicted.
   c) formed in such a manner that economic agents will not make systematic errors.
   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. Under the supply side economics, …………

   a) there will a sharp reduction in tax rate b) interest rate will be reduced
   c) wage rates will be lowered d) all the above

10. The efficiency wage model is associated with:

    a) New Keynesian Economics b) New Classical Economics
    c) Supply Side Economics d) Keynesian Economics

11. According to New Keynesian economists, the source of shocks which generate aggregate disturbances can arise …………..

    a) from the supply side only b) from the demand side only
    c) from the supply side or the demand side d) none of these

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. Which of the following statements about rational opportunistic models is/are true?

    a) electoral cycles are created in policy variables such as government spending, taxes and monetary growth.
    b) electoral cycles are made possible by temporary information asymmetries.
    c) Although rational voters aim to choose politicians who they believe can deliver the highest

utility, they lack information on the competence of different policy makers.
d) All the above.

14. 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

15. Which of the following statements about stabilization policy is **not** true?

a) Govt. of India has given control of interest rates, a key tool of activist stabilization policy, to the Reserve Bank of India.
b) Many economists prefer automatic stabilizers because they affect the economy with a shorter lag than activist stabilization policy.
c) Long lags enhance the ability of policy makers to fine-tune the economy.
d) When policy markers implement activist stabilization policies, there is a significant risk that their policies may actually have a destabilizing effect.

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

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

16. How would a shift in the production function affect the levels of output and employment in the classical model?
17. Explain how the origins of the Keynesian revolution can be found in the problem of unemployment.
18. What are the policy implications of the monetary approach to balance of payments under fixed exchange rates?
19. In what sense is Milton Friedman's theory of demand for money a restatement of the Cambridge equation?
20. How does real business cycle theory explain fluctuations in employment?
21. What do you mean by policy ineffectiveness?
22. What is meant by efficiency wage?
23. Point out the arguments in favour of central bank independence.

($5 \times 1 = 5$ weightage)

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

24. In what sense is the classical theory of aggregate supply "fundamentally incompatible" with the Keynesian system?
25. Critically examine the classical theory of interest rate.

(P.T.O.)

26. What are the implications of Milton Friedman's theory of the natural rate of unemployment for the effectiveness of economic stabilization policies?
27. Explain the monetarist view on how the velocity of money is determined.
28. Describe the central features of real business cycle models.
29. Explain the Laffer curve and its policy implications.
30. Give a brief description of the features of new Keynesian economics.
31. Give an outline of new Keynesian explanations of real wage rigidity in terms of implicit contract theories.
32. Describe the Nordhaus opportunistic model.
33. Explain the central element of the partisan theory of fiscal policy making.

(7 × 2 = 14 weightage)

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

34. Explain the classical model of output and employment.
35. Critically examine Lucas's surprise supply function.
36. Explain the new Keynesian business cycle theory.
37. Describe rational political business cycles. How it is different from non-rational political business cycles?

(2 × 4 =8 weightage)