D2AEC2402 (3 Pages) Name: ....

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

SECOND SEMESTER M.A. DEGREE EXAMINATION, APRIL 2025

(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. In Keynesian analysis, the size of the investment multiplier depends on:
   a) MPC b) APC c) MEC d) MEI

2. Keynes favoured the idea of reducing real wage by way of:
   a) reducing money wage relative to price level.
   b) increasing price level relative to money wage.
   c) both (a) and (b).
   d) none of these.

3. Which of the following statements about interest rate in classical model is/are correct?
   i. The higher the rate of interest the more willing will savers be to replace present consumption with future consumption.
   ii. Household saving responds positively to the rate of interest.
   iii. Household consumption is negatively related to the rate of interest.
   iv. Investment expenditure on capital goods is negatively related to the rate of interest.

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

4. According to Friedman, the demand for money will be greater:
   a) the higher the level of wealth. b) the lower the yield on other assets.
   c) the lower the expected rate of inflation. d) all of these.

5. Instability in the economy is primarily the result of:
   a) change in the money supply b) government policies
   c) private sector consumption d) private sector investment

6. The monetarist view on the effectiveness of fiscal policy is that:
   a) fiscal policy by itself is largely ineffective.
   b) fiscal policy by itself is effective.
   c) fiscal policy is effective in the short run but not in the long run.
   d) none of these.

7. 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

8. According to Real Equilibrium Business Cycle Theory (REBCT), the impulse mechanism driving business cycle is
   a) unanticipated monetary shocks b) random changes in technology
   c) both (a) and (b) d) none of these

(P.T.O.)

9. Which one the following economists is the chief advocate of supply side economics?
a) Arther Laffer b) Robert Lucas c) Neil Wallace d) both (a) and (c)

10. The insider outsider model is associated with:
a) New Keynesian Economics b) New Classical Economics
c) Supply Side Economics d) None of these

11. 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.

12. According to new-Keynesian economists, non-neutrality of money arises from:
a) price flexibility b) wage flexibility
c) both (a) and (b) d) sticky prices

13. Whether an economic shock is identified as being a supply shock or a demand shock makes a great difference for aggregate demand management because:
a) this matters for the choice of using either fiscal or monetary policy to respond to the economic shock.
b) supply shocks demand contractionary aggregate demand policy but expansionary monetary policy.
c) partisan business cycles are generated by supply shocks and real business cycles are generated by demand shocks.
d) in the face of a supply shock aggregate demand policy will not be particularly useful since it will either compound the impact on inflation or unemployment of a supply shock.

14. Who is the author of "The Political Business Cycle"?
a) Hibbs b) Nordhaus c) Alesina d) Rogoff and Sibert

15. Suppose a wave of investor and consumer optimism has increased spending so that the current level of output exceeds the long-run natural rate. If policy makers choose to engage in activist stabilization policy, they should:
a) decrease government spending, which shifts the aggregate demand curve to the left.
b) decrease taxes, which shifts the aggregate demand curve to the right.
c) decrease taxes, which shifts the aggregate demand curve to the left.
d) decrease government spending, which shifts the aggregate demand curve to the right.

(15 × $^{1}/_{5}$= 3 weightage)

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

16. What factors determine the velocity of money in the classical system?

17. Explain the concept of rational expectations.

18. How would the level of aggregate demand be affected by a rise in the interest rate in the Keynesian theory?

19. What are the policy implications of the expectations-augmented Phillips curve?

20. Explain the concept of the natural rate of unemployment.

21. What do you mean by Laffer curve?

22. What are the core propositions of New Keynesian economics?

23. Give an account of major differences between Hibbs partisan model and rational partisan theory.

(5 × 1 = 5 weightage)

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

24. "Money is more important in the Keynesian system than in the classical system." Did you agree? Or would you maintain that the opposite is true?

25. Describe Keynes's analysis of the labour market.

26. Why monetarists believe that monetary policy affects output and employment in the short run but not in the long run?

27. In what sense is Milton Friedman's theory of demand for money a restatement of the Cambridge equation?

28. How does real business cycle theory explain fluctuations in employment?

29. Explain the policy implications of supply side macroeconomics.

30. Describe insider-outsider model as an explanation for hysteresis.

31. Explain the new Keynesian business cycle theory.

32. Describe the policy implications of politico-economic models.

33. Explain the political economy of debt and deficits.

(7 × 2 = 14 weightage)

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

34. Explain the causes and consequences of the Great Depression.

35. Critically examine the rational expectations hypothesis.

36. Give an outline of new Keynesian explanations of real wage rigidity in terms of implicit contract theories and efficiency wage theories.

37. Describe rational political business cycles. How it is different from non-rational political business cycles?

(2 × 4 = 8 weightage)