

Name :

Reg. No:

FIRST SEMESTER M.A. DEGREE (CUCSS) EXAMINATION, FEBRUARY 2013

Economics

MACRO ECONOMIC THEORY AND POLICY - I
(2010 Admission)

Time : Three Hours

Maximum : 36 Weightage

PART A

Answer all Questions. Each bunch of four questions carries a Weightage of 1

A Multiple Choice

1. Permanent income hypothesis is related to

(a) Income	(b) Consumption
(c) Saving	(d) Investment
2. If MPC falls as income rises, then the consumption function is said to be

(a) Proportional	(b) Non-Proportional
(c) Linear	(d) Non-linear
3. In a Three-sector economy, the coefficient of *balanced budget multiplier* is equal to

(a) Zero	(b) One
(c) Greater than One	(d) Less than One
4. Which of the following is not a conjecture of Keynes' Consumption Function

(a) $C = f(y)$	(b) $0 < MPC < 1$
(c) MPC & APC is proportional	(d) As Y rises c/y falls

B. Multiple Choice

5. Ceteris paribus, in the neoclassical ISLM model, fiscal policy leading to the forward shifting of IS schedule cannot alter the level of real national output due to

(a) Price rigidity	(b) Crowding out effect
(c) Increased taxation	(d) Constant interest rate
6. An increase in the money supply have no effect upon equilibrium income, if

(a) LM is steeply sloped and IS is relatively flat
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- (b) LM is steeply sloped and IS is vertical
 (c) LM is vertical and IS is steeply sloped
 (d) LM is relatively flat as the IS
7. It is impossible to increase the level of output due to monetary policy, if the LM curve
 (a) Perfectly elastic (b) Perfectly inelastic
 (c) Relatively elastic (d) Relatively inelastic
8. Which of the following statement is true about the New Keynesian beliefs?
 (a) Prices are flexible in the short run
 (b) Prices are rigid in the short run due to transaction cost
 (c) New technology is the main cause of business cycle
 (d) Consumers do not behave according to rational expectation

B Fill in the Blanks

9. The Permanent Income Hypothesis, was developed by
10. The ratio of rate of return on investment to cost of capital is referred to as
11. The Keynesian aggregate supply curve is in the long run
12. When planned consumption equals Rs. $200 + 0.75Y$ and planned investment is Rs. then the equilibrium level of income is

C State whether the following statements are true or false

13. IS Curve shift forward when investment function shift forward and saving function backward.
14. Prices fails to establish market clearing general equilibrium, therefore, quantities have to adjust to have a market clearing equilibrium, is focus of New Classicalist.
15. In the Keynesian open economy model, the central bank can sterilize the effect of BOF on the money stock.
16. The non-market clearing state when there is excess supply in both goods and labor market is called Keynesian Unemployment.

(16 x .25 = 4 Weightage)

PART B

Answer Any Ten Questions. Each question carries a Weightage of 2.

17. What are the factors determining consumption function?
18. How does LM Curve shift?
19. What are the implications of Tobin's q ratio?
20. Explain the Relative Income Hypothesis.
21. Describe endogenous growth theory.
22. Define accelerator.
23. What are the implications of supply side economics?
24. Distinguish between voluntary unemployment and involuntary unemployment.
25. Illustrate the neoclassical version of ISLM Model.
26. Describe implicit wage contract model.
27. What are the significances of dual decision hypothesis?
28. What is meant by 'tatonnement'?
29. Bring out the elements of supply side economics.
30. Examine the rationale of IS-LM Curve.

(10 x 2 = 20 Weightage)

PART C

Answer Any Three Questions. Each question carries a Weightage of 4.

31. Explain the basic principles of New Classical Macro Economics
32. Describe Life Cycle Hypothesis.
33. Evaluate Neo-classical theory of investment.
34. Examine the policy implications of ISLM analysis.
35. Describe Keynesian three sector macro model. Show the process of income determination in three sector economy.

(3 x 4 = 12 Weightage)