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(Pages : 4)

Name...................................

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FIRST SEMESTER M.A. DEGREE EXAMINATION, DECEMBER 2014

(CUCSS)

Economics

EC 01 C02—MACRO ECONOMIC THEORY AND POLICY—I

Time : Three Hours

Maximum : 36 Weightage

Part A

Answer all questions.

Each bunch of four questions carries a weightage of 1.

1. Multiple Choice :

1 Accelerator theory of investment explains the net investment in terms of :

    (a) Increases in expected output.

    (b) Increases in expected income.

    (c) Increases in expected investment .

    (d) Increases in expected inflation.

2 The hypothesis that, consumption is a function of current income, whether the relationship is linear or non-linear, is known as :

    (a) Permanent Income Hypothesis. (b) Absolute Income Hypothesis.

    (c) Relative income Hypothesis.   (d) Any of the above.

3 When there is excess supply in the labour market :

    (a) Firms are rationed.

    (b) Households are rationed.

    (c) Neither household nor firms are rationed.

    (d) Both households and firms are rationed.

4 If APC declines as Y increases, the consumption function is said to be :

    (a) Linear.   (b) Non-linear.

    (c) Proportional.   (d) Non-proportional.

Turn over

B. Multiple Choice

5 Tobin's q theory of investment indicates that firms add to their stock of capital when :

   (a) The replacement value of real assets exceed the market value of financial asset.

   (b) The market value of financial asset exceed the replacement value of real assets.

   (c) The market value of real assets exceed the book value of financial assets.

   (d) The market value of financial asset exceed the book value of real assets.

6 If the sellers sells as much of the good as they plan to sell and buyers buy as much as please, subject to budget constraint, it is :

   (a) Effective demand and effective supply.

   (b) Notional demand and notional supply.

   (c) Actual demand and actual supply.

   (d) All the above.

7 At full employment level of output, the aggregate supply function in the Keynesian model becomes :

   (a) Perfectly elastic at fixed price.

   (b) Perfectly elastic at flexible price.

   (c) Perfectly inelastic at fixed price.

   (d) Perfectly inelastic at flexible price.

8 Permanent Income Hypothesis by Milton Friedman states that :

   (a) Positive transitory income are consumed.

   (b) Positive transitory income are saved.

   (c) Positive transitory income are neither consumed nor saved.

   (d) None of these.

C. Fill in the Blanks :

9 It is impossible to increase the level of output due to monetary policy, if the LM cu ————.

10 The amount that households can actually purchase given the quantity constraint on sales of labour is called ————.

11 The non-market clearing state when there is excess supply in both goods and labour ma called ————.

12 Prices fails to establish market clearing general equilibrium, therefore, quantities has to to have a market clearing equilibrium, is focus of ————.

12. State whether the following statements are true *or* false :

13 IS Curve shift forward when investment function shift backward and saving function shift forward

14 The Permanent Income Hypothesis, is developed by Franco Modigliani

15 Tobin's *q* is simply the ratio of rate of return on investment to cost of capital.

16 The terms inside money and outside money are introduced by Gurley and Shaw.

(16 × ¼ = 4 weightage)

Part B

Answer any **ten** *questions.*
Each question carries a weightage of 2.

17. What are the implications of the Principle of Effective Demand ?

18. Distinguish between voluntary unemployment and involuntary unemployment.

19. What are the merits of Keynesian theory of investment ?

20. State Kuznet's consumption puzzle.

21. What is Laffer curve ?

22. Explain Rational Expectation Hypothesis.

23. Describe Dual Decision Hypothesis.

24. Explain endogenous growth theory.

25. What are the implications of monetarism ?

26. Bring out the major themes of New classical macro economics.

27. Illustrate with an example the micro foundation of macro economics.

28. Describe small menu cost model.

29. Examine implicit wage contract model.

30. What is investment multiplier ?

(10 × 2 = 20 weightage)

Turn over

Part C

Answer any **three** *questions.*

Each question carries a weightage of 4.

31. Explain DSGE Model.

32. Compare and contrast Keynesian and neo-classical theories of investment.

33. Describe Permanent Income Hypothesis. Bring out its policy implications.

34. Examine the effectiveness of monetary and fiscal policies using ISLM analysis.

35. Examine real business cycle theory.

$(3 \times 4 = 12$ weigh