233 (Pages : 3) Name......................................

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

SECOND SEMESTER M.A. DEGREE EXAMINATION, JUNE 2014

(CUCSS)

Economics

MACRO ECONOMICS THEORY AND POLICY—II

Three Hours Maximum : 36 Weightage

Part A

Answer all questions.

Each bunch of four questions carries a weightage of 1.

Multiple Choice :

1 The excessive expansion of the money supply is inherently inflationary, and that monetary authorities should focus solely on maintaining price stability, is the argument of :

  (a) Keynesians   (b) Post Keynesians.

  (c) Monetarists   (d) New Classicalists

2 The term "neutral money" was initially coined by :

  (a) Milton Friedman.   (b) A. C. Pigou.

  (c) Friedrich Hayek.   (d) James Tobin.

3 An asset is said to be 'liquid' if :

  (a) It can be realized more certainly without loss.

  (b) It can be realized with nominal loss.

  (c) It is marketable at certainty, but with possible outcome of loss.

  (d) It can be realized with substantial loss.

4 The term NAIRU is associated with :

  (a) A. W Phillips.   (b) Paul Samuelson.

  (c) Milton Friedman.   (d) J. R. Hicks.

Multiple Choice :

5 Money is acting only as a medium of exchange and it could not influence the level of output and employment is known as :

  (a) Money illusion.   (b) Classical dichotomy.

  (c) Money neutrality.   (d) None of these.

Turn over

6 Walras' law states that sum of the excess demands in all markets will be :

    (a) Positive.   (b) Negative.

    (c) Zero.   (d) One.

7 Who authored the book *"Elements of Pure Economics (1874-1877)"* ?

    (a) William Stanley Jevons.   (b) Carl Menger.

    (c) Leon Walras.   (d) Alfred Marshall.

8 Which of the following is the component of high powered money in India?

    (a) Currency held by the public.   (b) Cash reserves with the banks.

    (c) Other deposits of RBI.   (d) All the above.

C Fill in the Blanks :

    9 If U^* is the NAIRU and U is the actual unemployment rate, the theory says that, if U
    a few years, inflationary expectations would —————.

   10 Fisher's transaction approach emphasized the ————— function of money.

   11 The smaller the cash reserve ratio, ————— the money supply in the country.

   12. $M_2 = M_1 +$ —————.

D State whether the following statements are true or false :

   13 The 'idle cash balance', according to Keynes is holding of money for Precautionary M

   14 At the natural rate of unemployment. Phillips curve becomes horizontal.

   15 In the situation of liquidity trap, monetary policy is ineffective.

   16 Equities are defined as financial claim to a stream of payments that are fixed in real

                                                                 $(16 \times \frac{1}{4} = 4$ wei

Part B

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

17 The quantity theory equations are mere truisms. Comment.

18 Discuss Cambridge equation of quantity theory of money.

19 Define Keynes' effect.

20 What is meant by NAIRU ?

21 State Ricardian Equivalence theorem.

22 What are the types of inflation ?

23 What are the significances of Liquidity preference theory of interest ?

24 Distinguish between cash reserve ratio and currency ratio.

25 What are determinants of money supply ?

26 What are the superiority of Keynes theory of money and prices ?

27 What are the components of money supply in India ?

28 State Taylor rule.

29 What is meant by classical dichotomy ?

30 What is money illusion ?

(10 × 2 = 20 weightage)

Part C

*Answer any **three** questions.*
Each question carries a weightage of 4.

31 Critically examine Milton Friedman's restatement of quantity theory of money.

32 Describe Samuelson's overlapping generation model.

33 Compare and contrast the post Keynesian approach to demand for money.

34 Examine endogenous money supply models.

35 Illustrate short run and long run Phillips curve. Analyse their policy significance.

(3 × 4 = 12 weightage)