

SECOND SEMESTER M.A./M.Sc./M.Com. DEGREE EXAMINATION
JUNE 2020

(CBCSS)

Economics

ECO 2C 06—MACRO ECONOMICS : THEORIES AND POLICIES II

(2019 Admissions)

Time : Three Hours

Maximum : 30 Weightage

Part A (Multiple Choice Questions)

Answer all questions.

Each question carries $\frac{1}{4}$ weightage.

1. If actual inflation rises expected inflation also rise and Phillips curve will move upward so as to give the same expected real wage increase at each employment level is the assumption associated with :
 - a) Long run Philips curve.
 - b) Expectations augmented Phillips curve.
 - c) Short run Philips curve.
 - d) Any of the above.
2. The severity of recession is known as :
 - a) Prosperity.
 - b) Recession.
 - c) Economic slow-down.
 - d) Depression.
3. According to _____ hypothesis economic agents form expectations of the future values of economic variables like prices, income etc by using all the economic information available to them.
 - a) Adaptive expectation.
 - b) Rational expectations.
 - c) Both a) and b).
 - d) None of these.
4. _____ embodies the idea that the output depends on the difference between the actual price level and the expected price level.
 - a) Lucas' supply function.
 - b) Efficiency wage theory.
 - c) Neoclassical supply curve.
 - d) Keynesian supply curve.

5. The lowest level of unemployment an economy can handle without causing inflation is known as :

- a) Natural Rate of unemployment. b) NAIRU.
c) Disguised unemployment. d) Involuntary unemployment.

6. The party in power chooses economic policies during its incumbency which maximizes its plurality in next election was mainly advocated by :

- a) Robert Lucas. b) J M Keynes.
c) William Nordhaus. d) Milton Friedman.

7. Under Keynesian cross model, rate of interest is :

- a) Exponential variable. b) Endogenous.
c) Exogenous. d) Stock variable.

8. A persistent deficit on current account means, the domestic country is :

- a) Acquiring foreign assets. b) Selling foreign assets.
c) Quit from international market. d) None of the above.

9. Keynes was most concerned with :

- a) Demand Pull inflation. b) Cost push inflation.
c) Structural inflation. d) Stagflation.

10. In the classical theory, an increase in money supply leads to :

- a) Decrease in price level. b) Increase in savings.
c) Decrease in investment. d) Increase in price level.

11. Keynes recommended _____ as an effective macroeconomic policy :

- a) Fiscal Policy. b) Monetary Policy.
c) Both fiscal and monetary policy. d) Neither fiscal nor monetary policy.

12. When interest rate and income is measured respectively, along OY axis and OX axis, elasticity of BOF equal to infinity (∞), represents :

- a) Perfect capital mobility that sets up very large capital flows.
b) Foreign securities are perfect substitutes for domestic securities.
c) Sterilization of the effects of ΔFR on the money stock becomes impossible.
d) All the above.

Part B (Short Answer Type Questions)*Answer any five questions.**Each question carries 1 weightage.*

13. What is monetarism ?
14. State Laffer curve.
15. Write a note on supply shocks and stagflation.
16. What are the key propositions of new Keynesian economics ?
17. Distinguish between natural rate of unemployment and NAIRU.
18. What is small menu cost model ?
19. What is BOF in BOP statement ?
20. State the role of Government in maintaining economic stability.

 $(5 \times 1 = 5 \text{ weightage})$ **Part C (Paragraph Type Questions)***Answer any seven questions.**Each question carries 2 weightage.*

21. Explain the policy implications of classical equilibrium model.
22. What is expectation augmented Philips curve ?
23. State the inter-temporal substitution model.
24. What are the propositions of implicit wage contract model ?
25. How does the economy respond to discretionary policy measures ? Should the Government adopt policies consistent with stable price level ?
26. Distinguish the opportunistic and partisan model.
27. Examine the policy conclusions of Keyes on Great Depression.
28. Discuss the core propositions of Hibbs Partisan model.
29. Discuss classical revolution.
30. Describe the policy implications of pegged exchange rate system.

 $(7 \times 2 = 14 \text{ weightage})$ **Turn over**

Part D (Essay Type Questions)

Answer any two questions.

Each question carries 4 weightage.

31. Critically evaluate the policy implications of politico-economic models.
32. Describe the monetary approach to BOP and exchange rate determination. Bring out the policy implications.
33. Examine the major postulations and policy implications of New Classical macro economics.
34. Explain the significance of Keynesian demand and supply management policies amidst political distortions and macro economic performance of India.

(2 × 4 = 8 weightage)