

D 53903

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Name.....

Reg. No.....

**FIRST SEMESTER P.G. DEGREE EXAMINATION  
NOVEMBER 2023**

(CCSS)

Financial Economics

FEC 1C 02—MACRO ECONOMIC THEORY AND POLICY

(2022 Admissions)

Time : Three Hours

Maximum : 50 Marks

**Part A (Multiple Choice Questions)**

*Answer all questions.**Each question carries 1 mark.*

1. Tobin's  $q$ -theory of investment indicates that firms add to their stock of capital when :
  - (a) The replacement value of their real assets exceeds the market value of their financial assets.
  - (b) The market value of their financial assets exceeds the replacement value of their real assets.
  - (c) The market value of their real assets exceeds the book value of their financial assets.
  - (d) The market value of their financial assets exceeds the book value of their real assets.
2. The equation  $C = \$20 + 0.90 Y_d$  predicts that consumption is :
  - (a) \$90 when disposable income is \$100.
  - (b) \$100 when disposable income is \$90.
  - (c) \$110 when disposable income is \$100.
  - (d) \$180 when disposable income is \$200.
3. A money supply monetary policy should be used when the location of IS is \_\_\_\_\_, whereas an interest rate monetary policy should be used when the location of LM is \_\_\_\_\_.
  - (a) Certain, uncertain.
  - (b) Uncertain, certain.
  - (c) Certain, certain.
  - (d) Uncertain, Uncertain.

**Turn over**

4. Aggregate supply is positively related to the price level when :
- (a) Frictional and structural unemployment exists.
  - (b) The supply of labor schedule adjusts immediately to a change in the demand for labor.
  - (c) The demand for labor schedule adjusts immediately to the price level, and the labor supply schedule does not.
  - (d) The supply of labor schedule adjusts immediately to the price level, and the demand for labor does not.
5. The multiplier -accelerator model of trade cycle is associated with the names of :
- (a) Hicks and Hansen.
  - (b) Hicks and Samuelson.
  - (c) N. Kaldor.
  - (d) R G Hawtrey.

(5 × 1 = 5 marks)

**Part B (Very Short Answer Questions)**

*Answer in one **or** two sentences each.*

*Answer any **five** questions.*

*Each question carries 1 mark.*

- 6. Frictional unemployment.
- 7. Transaction demand for money.
- 8. Higher Powered Money.
- 9. Real Balance effects.
- 10. Random Walk Theory.
- 11. Crowding-Out Effect.
- 12. Current account balance.
- 13. Fallacy of composition.

(5 × 1 = 5 marks)

**Part C (Short Answer Questions)**

*Answer any **six** questions.  
Each question carries 4 marks.*

14. What are the main functions of NSSO ?
15. (a) Find the  $m1$  money multiplier and the  $M1$  money supply when  $B = ₹ 200$ ,  $r_D = 0.10$ ,  $e = 0.10$  and  $k = 0.20$ .  
(b) Find the  $m1$  money multiplier and the  $M1$  money supply when  $e = 0$  and  $k = 0.20$ .
16. Give an account of Hawtrey's Monetary Theory of Business cycles.
17. What is Schumpeter's innovation theory ?
18. What is the role of dynamic aggregate supply in macroeconomic policies ?
19. Critically appraise Fisher's Intertemporal Choice model.
20. How does one derive the IS Curve ?
21. Briefly describe the Liquidity preference theory.
22. Explain Kuznet's Consumption puzzle.

(6 × 4 = 24 marks)

**Part D (Essay Type Questions)**

*Answer any **two** questions.  
Each question carries 8 marks.*

23. Critically evaluate the Kaldor's model of trade cycle.
24. Explain in detail the neoclassical model of Labour demand.
25. Explain the Radcliffe-Sayers' version of the Liquidity Theory.
26. Critically comment on the permanent Income Hypothesis.

(2 × 8 = 16 marks)