

FIRST SEMESTER P.G. DEGREE EXAMINATION, DECEMBER 2017

(CCSS)

Economics

ECO 1C 02—MACRO ECONOMIC THEORY AND POLICY

(2013 Admissions)

Time : Three Hours

Maximum : 80 Marks

Part A

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

1. ISLM analyse the interrelationship between :
 - (a) Fixed and flexible variables.
 - (b) Stock and Flow variables.
 - (c) Real and Monetary Variables.
 - (d) Single and Multi variables.
2. The amount of real resources bought by Government with newly created money is called :
 - (a) Seigniorage.
 - (b) Financial asset.
 - (c) Fiscal revenue.
 - (d) Liquid asset.
3. The LM Curve slopes :
 - (a) Upward.
 - (b) Downward.
 - (c) Vertical.
 - (d) Horizontal.
4. The relation between transaction demand for money and interest rate are :
 - (a) Positive.
 - (b) Negative.
 - (c) Constant.
 - (d) No relation.
5. $NNP_{mp} =$
 - (a) $NNP_{fc} + \text{Net Indirect taxes.}$
 - (b) $NNP_{fc} - \text{Net Indirect tax.}$
 - (c) $NDP_{fc} + \text{Net Indirect taxes.}$
 - (d) $NDP_{fc} - \text{Net Indirect taxes.}$

Turn over

6. Accelerator explains :

- (a) Effect of change in income on investment.
- (b) Effect of change in investment on income.
- (c) Effect of change in interest rate on investment.
- (d) Effect of change investment on tax.

7. Adaptive expectation was popularized by :

- (a) Cagan and Friedman.
- (b) Marshall and Pigou.
- (c) Tobin and Friedman.
- (d) Cagan and Tobin.

8. Keynesian unemployment is known as :

- (a) Voluntary unemployment.
- (b) Involuntary unemployment.
- (c) Temporary unemployment.
- (d) Automatic unemployment.

9. Monetary policy is effective when IS curve is :

- (a) Flat.
- (b) Steep.
- (c) Vertical.
- (d) Horizontal.

10. According to Keynes, Unemployment is due to lack of effective :

- (a) Demand.
- (b) Fiscal control.
- (c) Price.
- (d) Supply.

(10 × 1 = 10 marks)

Part B

Answer any eight questions.

Each question carries 5 marks.

11. What is meant by policy lag ? Briefly explain inside and outside policy lags.

12. Describe Mundel-Fleming Model.

13. Explain Flow and Stock Equilibrium.

14. What is meant by money multiplier ? Explain.

15. Describe open economy model of ISLM.

16. What is wage rigidity implies ? Briefly explains the effect of rigidity and flexibility of wage rate in labour market.

17. Compare and contrast Life cycle and Relative income hypothesis.
18. Explain Hayek's Over Investment Theory.
19. What are the features of Psychological Law of Consumption Function ?
20. Briefly explain trade policy and its instruments.
21. Explain Policy Effectiveness of ISLM.

(8 × 5 = 40 marks)

Part C

Answer any two questions.

Each question carries 15 marks.

22. Compare and contrast Neo-Classical and Keynesian ISLM Model.
23. Explain demand for and supply of labour in Neo-classical and Keynesian Labour Market.
24. What are the Phases of Business Cycle ? Explain its causes and different theories.
25. Explain the effectiveness of Fiscal and Monetary Policy using ISLM Framework.

(2 × 15 = 30 marks)