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Name.....

Reg. No.....

FIRST SEMESTER P.G. DEGREE EXAMINATION, NOVEMBER 2018

(CCSS)

Economics

ECO 1C 02—MACRO ECONOMIC THEORY AND POLICY

(2018 Admissions)

Time : Three Hours

Maximum : 80 Marks

Part A

Answer all questions.

Each question carries 1 mark.

Multiple Choice Questions :

1. National Income is identical to :
 - (a) Net National Product at Market Prices.
 - (b) Net National Product at Factor Cost.
 - (c) Net Domestic Product at Market Prices.
 - (d) Net Domestic Product at Factor Cost.
2. Frictional Unemployment arises due to :
 - (a) Seasonal Slackness in Business Activity.
 - (b) Lack of Productive Capacity.
 - (c) Deficiency of Aggregate demand.
 - (d) Transfer of Labour from one occupation to another.
3. Engel's Law establishes the relationship between :
 - (a) Tax Rate and Tax Revenue.
 - (b) Income Distribution and Income Inequality.
 - (c) Income and Food Consumption Expenditure.
 - (d) Inflation and Unemployment.
4. According to the Inventory Approach, income elasticity of money demand is :
 - (a) Unity.
 - (b) Zero.
 - (c) Less than Unity.
 - (d) More than Unity.

Turn over

5. High Powered Money consists of :
- (a) Currency held by the Public and Cash Reserves of Banks.
 - (b) Currency held by the Public, Cash Reserves of Banks and deposits with Central Bank.
 - (c) Currency held by the Public, Cash Reserves of Banks, Time and Demand Deposits.
 - (d) Currency held by the Public and other Reserves with Central Bank.
6. An increase in Government purchases makes the IS curve :
- (a) To shift towards Right.
 - (b) To shift towards Left.
 - (c) Remains the Same.
 - (d) None of the Above.
7. Portfolio theories of money demand emphasise the role of money as :
- (a) Medium of Exchange.
 - (b) Unit of Account.
 - (c) Store of Value.
 - (d) All the Above.
8. An increase in which of the following would cause the long-run aggregate supply curve to shift to the right ?
- (a) Aggregate demand.
 - (b) Labor productivity.
 - (c) The average wage rate.
 - (d) The price level.
9. The theory of trade cycle which assumes that the process of change in business activity is due to the discrepancy between ex ante savings and investment :
- (a) Monetary Theory of Trade Cycle.
 - (b) Multiplier Accelerator Interaction Theory.
 - (c) Heyek's Over Investment Theory.
 - (d) Kaldor Theory of Trade Cycle.
10. Innovations in the structure of an economy are the causes of economic fluctuations. It is the argument of :
- (a) Schumpeter.
 - (b) Samuelson.
 - (c) Hayek.
 - (d) Hawtrey.

(10 × 1 = 10 marks)

Part B (Very Short Questions)

Answer all of the following.

Each question carries 2 marks.

Answer in one or two sentences each.

11. Political Business Cycle.
12. Money Multiplier.
13. Beggar-thy-neighbor Policy.
14. Mundell Fleming Model.
15. Liquidity Preference Theory.

(5 × 2 = 10 marks)

Part C (Short Answer Questions)

Answer any eight questions.

Each question carries 5 marks.

16. Explain why changes in consumption are unpredictable if consumers obey the permanent income hypothesis and have rational expectations.
17. How Consumer Price Index and Producer Price Index differ as measures of inflation ?
18. Describe the difference between Structural and Frictional Unemployment.
19. How does the life-cycle hypothesis resolve the seemingly contradictory pieces of evidence regarding consumption behaviour ?
20. In the neoclassical model of business fixed investment, under what conditions will firms find it profitable to add to their capital stock ?
21. Explain Fisher's inter temporal choice model.
22. Explain Pigou Effect.
23. The Liquidity theory of Girley and Shaw.
24. Give an account of the alternative views of the Stock Market.
25. Explain why the slope of the IS curve is a factor in determining the working of monetary policy.
26. Under what circumstances might the LM curve be horizontal ?
27. Hayek's Over Investment theory is based on a set of unrealistic assumptions. Discuss.

(8 × 5 = 40 marks)

Turn over

Part D (Essay Type Questions)

Answer any two questions.

Each question carries 10 marks.

28. Compare Absolute and Relative Income Hypothesis of Consumption.
29. State the relative effectiveness of monetary and fiscal policies on the open economy ISLM models.
30. Discuss the multiplier—accelerator interaction upon income and business cycle.
31. Examine Baumol-Tobin's approach to Demand for Money.

(2 × 10 = 20 marks)