

SECOND SEMESTER M.A. DEGREE EXAMINATION, JUNE 2018

(CCSS)

Economics

ECO 2C 06—DEVELOPMENTS IN MODERN MACROECONOMICS

Time : Three Hours

Maximum : 80 Marks

Part A

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

1. In stagflation :
 - (a) Potential output of the economy declines.
 - (b) The inflation rate is increasing because of rising demand.
 - (c) The output gap is negative.
 - (d) None.
2. Stabilization policies :
 - (a) Are discussed in the context of very long run models.
 - (b) Are discussed in the context of business cycles.
 - (c) Were first addressed by the classical macroeconomics.
 - (d) None.
3. Output in long run macroeconomic models :
 - (a) Are entirely demand determined.
 - (b) Are both demand and supply determined.
 - (c) Are entirely supply determined.
 - (d) Supply determined.
4. under employment output :
 - (a) Is also the potential output of the economy.
 - (b) Is also the trend output of the economy.
 - (c) Both (a) and (b) above.
 - (d) All the above.

5. The inflation rate :
 - (a) Is positive during stagflation.
 - (b) Is negative during stagflation.
 - (c) Is always negative during recession.
 - (d) None.
6. Output level in the classical model can be affected by :
 - (a) Money supply changes.
 - (b) Tax changes.
 - (c) Technological improvements.
7. The aggregate demand curve is :

(a) Linear.	(b) Vertical.
(c) A rectangular hyperbola.	(d) (a) and (b).
8. The Keynesian Cross Model :
 - (a) Assumes full employment of resources.
 - (b) Ignores the money market.
 - (c) Is a supply-determined model.
9. The Quantity Theory of Money says :
 - (a) That output is proportional to prices.
 - (b) That prices are proportional to money supply.
 - (c) That nominal national income is equal to money supply.
 - (d) None.
10. Technological advances :
 - (a) Will increase real wages.
 - (b) Will shift the labour supply function.
 - (c) Will not affect the aggregate supply function.
 - (d) Transfer payments stop.

(10 × 1 = 10 marks)

Part B

*Answer any eight questions.
Each question carries 5 marks.*

11. Explain rules v/s discretion.
12. What is Arrow Debreu model ? Explain.
13. Explain the concept of NAIRU.

14. State and explain the concept of liquidity constraints and myopia.
15. What do you mean by flexibility of money and wages ?
16. Explain New classical model.
17. Examine Okuns law.
18. Examine Small menu cost Efficiency Wage model.
19. Explain barro Ricardo equivalence.
20. Outline Lucas Critique and policy ineffectiveness.
21. Explain Quantity theory approach.
22. Briefly explain Philips curve and its developments.

(8 × 5 = 40 marks)

Part C

*Answer any **two** questions.
Each question carries 15 marks.*

23. Critically analyse the structure of the Real business cycle model.
24. Briefly explain the importance of the theory of Walrasian general equilibrium.
25. Explain in detail the approaches of the monetarist school.
26. Examine the concept of underemployment equilibrium and its importance.

(2 × 15 = 30 marks)