D 93273 (Pages : 4) Name..................................

Reg. No..............................

FIRST SEMESTER M.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, NOVEMBER 2020

(CBCSS)

Economics

ECO 1C 02—MACRO ECONOMICS : THEORIES AND POLICIES—I

(2019 Admissions)

Time : Three Hours Maximum : 30 Weightage

General Instructions

1. *In cases where choices are provided, students can attend* **all** *questions in each section.*
2. *The minimum number of questions to be attended from the Section/Part shall remain the same.*
3. *There will be an overall ceiling for each Section/Part that is equivalent to the maximum weightage of the Section/Part.*

Part A

Multiple Choice Questions.
Answer **all** *questions.*
Each question carries ¼ weightage.

1. In the ISLM Model, if the interest rate is measured along OY axis, the money supply in response to interest rate changes is :
   - (a) Exogenously determined, thus vertical.
   - (b) Exogenously determined, thus elastic.
   - (c) Endogenously determined, thus vertical.
   - (d) Endogenously determined, thus horizontal.
2. If the rate of change or shift in IS function is equal to the rate ot change or shift in LM function, then :
   - (a) Interest rate increase and income decline.
   - (b) Both interest rate and income increase.
   - (c) Interest rate decrease and income increase.
   - (d) Interest rate constant and income increase.
3. Liquidity trap is a situation when demand for money is :
   - (a) Zero elastic.
   - (b) Unit elastic.
   - (c) Perfectly elastic.
   - (d) Relatively more elastic.

Turn over

4. According to Milton Friedman quantity theory of money is the theory of :

   (a) Price.
   (b) Income.
   (c) Demand for money.
   (d) Supply of money.

5. In the case of proportional relation between consumption and income :

   (a) APC > MPC.
   (b) APC = MPC.
   (c) APC < MPC.
   (d) APC = MPS.

6. When the demand for money is infinitely interest elastic, the effectiveness of an expansionary monetary policy is ?

   (a) The highest.
   (b) Moderate.
   (c) Very low.
   (d) Nil.

7. Based on accelerator - multiplier interaction, whose theory of trade cycle generates constrained cycle :

   (a) J. R. Hicks.
   (b) N. Kaldor.
   (c) Paul Samuelson.
   (d) Robert Lucas.

8. Portfolio theory of demand for money assumes that the individual :

   (a) Disregards risk.
   (b) Is risk neutral.
   (c) Is risk lover.
   (d) Is risk averter.

9. The size of the Money Multiplier is larger, when ?

   (a) Less interest elastic is demand for money.
   (b) More interest elastic is demand for investment.
   (c) Both (a) and (b) True.
   (d) Neither (a) nor (b) True.

10. According to the Keynesian ISLM analysis, monetary policy is effective, if (A) The less interest-elastic is the demand for money, and ; (B) The more interest-elastic is the demand for investment.

   (a) Both (A) and (B) are correct.
   (b) Neither (A) nor (B) is correct.
   (c) Only (A) is correct.
   (d) Only (B) is correct.

11. Crowding out effect involves an increase in government spending which results into :
    - (a) Increase in prices.
    - (b) Reduction in private investments.
    - (c) Increase in private investments.
    - (d) Reduction in interest rates.
12. The relationship between value of money and general price level is :
    - (a) Direct.
    - (b) Indirect.
    - (c) Inverse.
    - (d) Proportional.

(12 × ¼ = 3 weightage)

Part B (Short Answer Type Questions)

Answer any **five** *questions.*
Each question carries 1 *weightage.*

13. State Absolute Income Hypothesis.
14. Distinguish between proportional and non-proportional consumption function.
15. Explain liquidity trap.
16. Define natural rate of unemployment.
17. Write a note elasticity of LM Curve.
18. State Ricardian equivalence.
19. How does IS Curve shifts ?
20. What do you mean by crowding out phenomenon ?

(5 × 1 = 5 weightage)

Part C (Paragraph Type Questions)

Answer any **seven** *questions.*
Each question carries 2 *weightage.*

21. Explain inter-temporal choice model in consumption behaviour
22. Explain liquidity preference approach.
23. State and explain long run Philips curve.
24. Explain the Kaldor's theory of business cycle.

25. What are the macroeconomic policy instruments ?

26. Describe the extension of ISLM Model with labour market and flexible prices.

27. State and explain Tobin's Q Ratio.

28. Describe the Permanent Income Hypothesis.

29. Compare the Keynesian and neo-classical versions of three sector macroeconomic model.

30. What are the objectives of macroeconomic policies ?

(7 × 2 = 14 weightage)

Part D (Essay Type Questions)

Answer any **two** *questions.*
Each question carries 4 *weightage.*

31. IS-LM model is a general equilibrium model. Illustrate.

32. Explain and evaluate the further modifications and extensions on Philips Curve.

33. Critically examine Friedman's re-statement of quantity theory of money.

34. Examine the functions that determine Central Banks autonomy. State the arguments for against the autonomy of central bank.

(2 × 4 = 8 weightage)