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FIRST SEMESTER M.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, NOVEMBER 2023

(CBCSS)

Economics

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

(2019 Admission onwards)

Time : Three Hours

Maximum : 30 Weightage

Part A (Multiple Choice Questions)

Answer **all** questions. Each question carries a weightage of 1/5.

- 1. The user cost of capital is :
 - (a) Nominal interest rate.
 - (b) The real interest rate.
 - (c) Real interest rate plus rate of depreciation.
 - (d) The nominal interest rate plus rate of depreciation.
- 2. According to quantity theory of money an increase in nominal money supply :
 - (a) Causes a proportional change in price level.
 - (b) No change in price level.
 - (c) A change in relative prices.
 - (d) A fall in price level.
- 3. In IS- LM model, under usual Keynesian assumption, an increase in government spending will cause :
 - (a) Income to rise and rate of interest to remain unchanged.
 - (b) Income to rise and rate of interest to fall.
 - (c) Both income and rate of interest to rise.
 - (d) Income to remain unchanged and rate of interest to fall.

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- 4. There are four phases of a business cycle. Identify the correct sequence of the occurrence of these phases :
 - (a) Revival, Recession, Expansion, Contraction.
 - (b) Revival, Expansion, Contraction, Recession.
 - (c) Contraction, Expansion, Recession, Revival.
 - (d) Revival, Expansion, Recession, Contraction.
- 5. According to the Phillips curve, unemployment will return to the natural rate when :
 - (a) Nominal wages are equal to expected wages.
 - (b) Real wages are back at long-run equilibrium level.
 - (c) Nominal wages are growing faster than inflation.
 - (d) Inflation is higher than the growth of nominal wages.
- 6. Okun's law related with :
 - (a) Unemployment and growth rate.
 - (b) Inflation and growth rate.
 - (c) Wage lose.
 - (d) None.
- 7. According to LCH, Consumption is related with :
 - (a) Current income. (b) Expected life time income.
 - (c) Price expectation. (d) Nominal Income.
- 8. If the economy is operating at potential GDP, an increase in money supply will lead to :
 - (a) Stagflation. (b) Structural inflation.
 - (c) Demand-side inflation. (d) Supply-side inflation.
- 9. The rate of net investment spending per time period depends on steepness of the downward slope of :
 - (a) Marginal efficiency of capital schedule.
 - (b) Marginal efficiency of investment schedule.
 - (c) IS-schedule.
 - (d) LM schedule.

10. For particular high values of marginal propensity to consume and the accelerator co-efficient, explosive non-oscillatory cycles will occur in the model of the business cycle propounded by :
(a) N. Kaldor.
(b) Hawtrey.

- (c) P.A. Samuelson. (d) J.R. Hicks.
- 11. Margin requirements is :
 - (a) Fiscal policy instrument. (b) Monetary policy instrument.
 - (c) Income policy instrument. (d) None of these.
- 12. According to Keynes investment is determined :
 - (a) Rate of interest. (b) Prospective yield.
 - (c) MEC. (d) All the above.
- 13. Liquidity trap exist when :
 - (a) Demand for money is perfectly inelastic.
 - (b) Demand for money is perfectly elastic.
 - (c) Demand for money is related with interest rate.
 - (d) There is a transaction demand for money.
- 14. Increase in Government expenditure shift IS curve to :
 - (a) Right. (b) Left.
 - (c) No change. (d) Any of these.
- 15. Who propounded Psychological law of consumption ?
 - (a) Adam Smith. (b) Ricardo.
 - (c) Keynes. (d) Pigou.

 $(15 \times 1/5 = 3 \text{ weightage})$

Part B (Very Short Answer Questions)

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

- 16. Explain the Taylor rule.
- 17. Consumption function.
- 18. Adaptive expectation hypothesis.

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- 19. Okun's law.
- 20. Political business cycle theory.
- 21. Money multiplier.
- 22. Explain Central bank autonomy.
- 23. Describe Marginal Efficiency of Investment.

$(5 \times 1 = 5 \text{ weightage})$

Part C (Short Answer Questions)

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

- 24. Analyse Fisher's Inter-temporal choice model.
- 25. Discuss the expectation- augmented Philips curve.
- 26. Discuss the Innovation theory of Schumpeter
- 27. Write a note on the Tobins *q*-ratio of investment.
- 28. Explain Keynesian and Monetarist approach of inflation
- 29. Explain the cash balance approach to the quantity theory of money.
- 30. Write a note on Hick's theory of trade cycles.
- 31. Describe the Ricardian equivalence theory.
- 32. Define rental cost of capital. What are the factors affecting rental cost of capital ?
- 33. What are the instruments of fiscal policy?

 $(7 \times 2 = 14 \text{ weightage})$

Part D (Essay Questions)

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

- 34. Explain the relative effectiveness of monetary and fiscal policy using IS-LM framework.
- 35. Elaborate the ideas of the Relative income and Permanent income hypothesis.
- 36. Critically examine the monetary theory of Hawtrey.
- 37. Explain the role of Macroeconomic policies with special reference to fiscal and monetary policy.

 $(2 \times 4 = 8 \text{ weightage})$