

**SIXTH SEMESTER B.A./B.Sc. DEGREE EXAMINATION, MARCH 2020**

(CUCBCSS—UG)

Economics

ECO 6B 11—MACRO ECONOMICS—II

Time : Three Hours

Maximum : 80 Marks

**Section A (Objective Type Questions)***Answer all twelve questions.**Each question carries ½ mark.*

1. Hyper inflation is generally caused by :
  - a) Wide spread shortages due to a bad harvest.
  - b) Continuous expansion of money supply to finance the deficit of the government.
  - c) A large decline in corporate profit.
  - d) A trade surplus due to the maximization of export and minimization of import.
2. Speculative demand for money depends on :
  - a) Income.
  - b) Investment.
  - c) Rate of interest.
  - d) Money supply.
3. In the equation  $MV = PT$ , T represents :
  - a) Transaction motive.
  - b) Techniques of production.
  - c) Type of money.
  - d) Trade volume.
4. In the classical theory of employment what ensures perfect clearing of the market :
  - a) Flexibility of interest rate.
  - b) Flexibility of wage rate.
  - c) Flexibility of prices of the commodity.
  - d) Classical assumption of perfect competition in the product market.
5. Macroeconomics is otherwise called :
  - a) Consumption theory.
  - b) Price theory.
  - c) Income theory.
  - d) Value theory.

**Turn over**

6. Liquidity of a monetary asset means :
- a) Ready acceptability and convertibility of a monetary asset.
  - b) Velocity of circulation of money.
  - c) Easy availability.
  - d) Monetary value of the asset is always an increasing one.
7. If the money supply is 5000 and nominal income is 40,000, the velocity of money is :
- a) 80.
  - b) 8.
  - c) 1/8.
  - d) Undefined.
8. According to the quantity theory of money demand :
- a) Interest rates have no effect on the demand for money.
  - b) An increase in interest rates will cause the demand for money to fall.
  - c) A decrease in interest rates will cause the demand for money to increase.
  - d) Both (b) and (c) are correct.
9. Phillips curve shows that unemployment will return to the natural rate when :
- a) Nominal wages are equal to expected wage.
  - b) Nominal wage growing faster than inflation.
  - c) Real wages are back at long run equilibrium level.
  - d) Inflation greater than nominal the growth of nominal wage.
10. To Okun's law, a 1 % increase in unemployment results in a loss of GDP of :
- a) 1%.
  - b) 2%.
  - c) 3%.
  - d) 5%.
11. After a contractionary or expansionary fiscal policy :
- a) The LM curve shifts and we move along the IS curve.
  - b) The IS curve shifts and we move along the LM curve.
  - c) Both the IS and LM curves shift.
  - d) Neither the IS nor the LM curve shifts.
12. In India, which of the following is called reserve money or base money :
- a) M1.
  - b) M2.
  - c) M3.
  - d) M0.

(12 × ½ = 6 marks)

**Section B (Very Short Answers)**

*Answer any ten questions.*

*Each question carries 2 marks.*

13. What is money Illusion ?
14. Explain the relationship between interest rate and bond price.
15. Distinguish between fiscal policy and monetary policy.
16. Define GNP deflator.
17. Explain the Keynesian precautionary motive.
18. What is meant by money multiplier ?
19. What is 'H' theory of money supply ?
20. What is meant by monetarism ?
21. Explain the meaning of neutrality of money.
22. Distinguish between cost pull and demand pull inflation.
23. What is meant by classical range in LM curve ?
24. What is meant by Keynesian liquidity trap ?

(10 × 2 = 20 marks)

**Section C (Short Essays)**

*Answer any six questions.*

*Each question carries 5 marks.*

25. What are the important functions of money ?
26. What are the important instruments of monetary policy ?
27. Critically examine the classical theory of Interest.
28. What are the important policy measures to control inflation ?
29. Briefly explain the short run and long run Phillips curves.
30. What are the different types of unemployment ?
31. Briefly explain the Hayek's theory of business cycle.
32. Analyze the effects of inflation on different sections of a society.

(6 × 5 = 30 marks)

**Turn over**

**Section D (Essays)**

*Answer any **two** questions.*

*Each question carries 12 marks.*

33. Discuss the Quantity theory of money and its restatement by Milton Friedman.
34. Critically examine the liquidity preference theory of interest.
35. Explain the goods market and money market equilibrium using the IS-LM model.
36. Critically examine the Hawtrey's pure monetary theory of business cycle.

(2 × 12 = 24 marks)