FIRST SEMESTER M.A. DEGREE EXAMINATION, JANUARY 2014

(CUCSS)

Applied Economics

Paper II—MACRO ECONOMIC THEORY

Time : Three Hours

Maximum : 36 Weightage

Part A

*Answer **all** questions.*
Each bunch of four questions carries weightage 1.

A. Multiple Choice :

1 According to classical, interest rate is a ———— phenomenon.

(a) Monetary.

(b) Real.

(c) Both monetary and real.

(d) None of these.

2 In an economy with MPC being 0.75, the increase in investment of Rs. 10 crores will lead to an increase in income to :

(a) Rs. 50 crores.

(b) Rs. 75 crores.

(c) Rs. 40 crores.

(d) Rs. 80 crores.

3 The IS curve depicts :

(a) Goods market equilibrium.

(b) Money market equilibrium.

(c) Bond market equilibrium.

(d) Labour market equilibrium.

4 Who advocated that transaction demand for money is also interest elastic ?

(a) Friedman.

(b) Patinkin.

(c) Baumal.

(d) Smith.

B. Multiple Choice :

5 When planned consumption equals Rs. $40 + 0.80$ Yd and planned investment is Rs. 60, the equilibrium level of income is :

(a) Rs. 100.

(b) Rs. 500.

(c) Rs. 400.

(d) Rs. 800.

6 Rational expectation is associated with :

(a) Monetarists.

(b) Keynesians.

(c) New classical.

(d) Classical.

Turn over

7 When there is an increase in bond prices, the speculative demand for money would :

    (a) Fall.

    (b) Rise.

    (c) Uncertain.

    (d) Remain unchanged.

8 Which among the following is not a monetary policy tool ?

    (a) CRR.

    (b) Open market operation.

    (c) Pump priming.

    (d) Margin requirement.

B. Fill in the blanks :

9 "Money, interest and Prices" was written by _____

    (a) J.M. Keynes.

    (b) Don Patinkin.

    (c) A.C. Pigou.

    (d) J.B. Say.

10 Quantity constrained model is related to :

    (a) Patinkin.

    (b) Lucas.

    (c) Tobin.

    (d) Barro and Grossman.

11 The term "notional demand" was coined by ____

    (a) Walras.

    (b) Clower.

    (c) J.B. Say.

    (d) Friedman.

12 According to Friedman the quantity theory of money is basically a theory of _____

    (a) Aggregate demand.

    (b) The demand for money.

    (c) National income.

    (d) Price level.

D. State whether the following statements is True *or* False :

13 LM curve's horizontal segment is known as intermediate range.

14 According to Friedman, consumption is determined by life time income.

15 In the linear consumption function equation MPC is greater than zero and less than one.

16 The demand for money is perfectly inelastic in the liquidity trap.

(16 x   = 4 weightage)

Part B (Short Answer Questions)

Answer any **ten** *not exceeding* **one** *page each.*
Each question carries 2 *weightage.*

17 Explain the concept of demonstration effect.

18 What is Tobin's q-ratio ? Explain its implications.

19 What are the major propositions of new classical economics ?

20 Write a note on Keynesian approach of BOP.

21 What is meant by classical dichotomy ?

22 What are policy implications of Phillip's curve ?

23 Explain the absolute income hypothesis.

24 Enumerate the Marshall Lerner conditions.

25 Discuss the importance of Patinkin's Real Balance Effect Theory.

26 What is the essence of supply side economics ?

27 How does the permanent income hypothesis differ from life cycle hypothesis ?

28 What is meant by micro foundation of macro economics ?

(10 x 2 = 20 weightage)

Part C (Essay Questions)

Answer any **three** *questions not exceeding* **three** *pages each.*
Each question carries 4 *weightage.*

29 Explain the basic approach of monetarism.

30 Examine Walrasian general equilibrium and its implications in economic theory.

31 Discuss the Mundel Fleming open economy model.

32 Explain the Fiscal and monetary policy analysis using the IS-LM model.

33 Critically examine the restatement of the quantity theory of money.

(3 x 4 = 12 weightage)