

**FIRST SEMESTER M.A. DEGREE EXAMINATION, DECEMBER 2016**

(CUCSS)

Applied Economics

Paper II—MACROECONOMIC THEORY

(2012 Admissions)

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 the short-run Phillips curve, which of the following will occur when the RBI increases the money supply ?  
 (a) Both the unemployment rate and the inflation rate will increase, (b) Both the unemployment rate and the inflation rate will decrease, (c) The unemployment rate will increase, and the inflation rate will decrease, (d) The unemployment rate will decrease, and the inflation rate will increase.
2. Which of the following is true if there is a current account deficit in the United States balance-of-payments accounts ?  
 (a) There is a corresponding deficit in the financial account, (b) There is a corresponding surplus in the financial account, (c) There is an offsetting surplus in the government's budget, (d) There is an offsetting increase in net exports.
3. An increase in national saving will cause the real interest rate and investment spending to change in which of the following ways ?

Real Interest Rate

Investment

- |               |       |           |       |
|---------------|-------|-----------|-------|
| (a) Increases | _____ | Increases | _____ |
| (b) Increases | _____ | Decreases | _____ |
| (c) Increases | _____ | No change | _____ |
| (d) Decreases | _____ | Increases | _____ |

**Turn over**

4. To raise its long-run rate of economic growth, a country should design and implement policies that do which of the following? (a) Encourage current consumption over saving (b) Encourage saving and investment (c) Increase the price level and profits (d) Promote equity through income redistribution.

**B. Multiple choice :**

5. With a constant money supply, an increase in the demand for money will affect interest rates and bond prices in which of the following ways ? Interest Rates Bond Prices (a) Increase Increase. (b) Increase Decrease (c) Increase Not change. (d) Decrease Increase.
6. According to the quantity theory of money, an increase in the money supply results in an increase in which of the following?  
(a) Interest rate ; (b) Unemployment ; (c) Nominal gross domestic product  
(d) The government's budget deficit.
7. Which of the following policies will most likely lead to a reduction in the natural rate of unemployment ?  
(a) Increasing government purchases of goods and services ; (b) Providing more job-training programs to help the less skilled ; (c) Increasing the duration of unemployment compensation ;  
(d) Raising the minimum wage.
8. Which of the following is NOT true of the RBI ? (a) It serves as a lender of last resort for member banks. (b) It supervises member banks. (c) It provides check-clearing services. (d) It issues debit cards.

**C. Fill in the blanks :**

9. An increase in Labor productivity would cause the long-run aggregate supply curve to shift to the \_\_\_\_\_ right.
10. An increase in household savings lead to a decrease in aggregate ----- demand \_\_\_\_\_
11. According to the Keynesian \_\_\_\_\_ model, equilibrium output of an economy may be less than the full-employment level of output because at full employment there might not be enough demand by firms and consumers to buy that output.
12. The purchase of government bonds from the public by the RBI is called as \_\_\_\_\_

**D. State whether the following statement is true or false :**

13. Economic phenomena such as the rate of unemployment and inflation are studied in microeconomics.
14. According to the classical/Keynesian synthesis, in the short run we are in the Keynesian world, and in the long run we are in the classical world.

15. During a recession, the economy often has higher rates of unemployment, whereas during a boom, the economy often has higher rates of inflation.
16. Monetarists believe the government should use monetary policy to boost aggregate demand during a recession.

(16 x 4 = 64 weightage)

### **Part B (Short Answer Questions)**

*Answer any **ten** not exceeding one page each.*

17. Explain accelerator theory of investment.
18. Briefly explain Mundell -Fleming Model.
19. Outline wealth effect.
20. Explain behavioural model of money supply.
21. What do you mean by outside money ?
22. What are rigidities ?
23. Explain absorption.
24. Briefly analyse the concept of Monetarism.
25. Explain rationing model.
26. Main feature of Keynesian model.
27. Gurley Shaw thesis.
28. BOT (Balance Of Trade).

(10 x 2 = 20 weightage)

### **Part C (Essay/Problems)**

*Answer any **three** questions.  
Each question carries 4 marks.*

29. Discuss the fiscal and monetary policy implications of the ISLM model.
30. Analyse the open economy model.
31. Outline the major tenets of supply of money.
32. Discuss the importance of investment in macroeconomic analysis.
33. Discuss the neoclassical macroeconomics.

(3 x 4 = 12 weightage)