



K16P 0358



Reg. No. :

Name :

Second Semester M.A. Degree (Regular/Supplementary/Improvement)
Examination, March 2016.
ECONOMICS/APP. ECONOMICS/DEV. ECONOMICS
(2014 Admn. Onwards)
ECO2C06 : MACRO ECONOMIC THEORY – II

Time : 3 Hours

Max. Marks : 60

PART – A

Answer **all** questions. **Each** carries ½ mark. **(8x½=4 Marks)**

1. With inclusion of foreign trade in IS-LM model the product market equilibrium condition is

a) $I + G + X < S + T + M$	b) $I + G + X > S + T + M$
c) $I + G + X = S + T + M$	d) None of the above
2. The demand curve for foreign exchange will depend on

a) Elasticity of demand for exports
b) Elasticity of demand for imports
c) Elasticity of demand for both imports/exports
d) None of the above
3. The term Natural rate of unemployment was coined and used by

a) Arthur M. Okun	b) A.W. Phillips
c) Milton Friedman	d) None of the above
4. The long-run phillips curve means

a) There is no trade-off between the unemployment and inflation in the long-run
b) There is trade-off between the unemployment and inflation in the long-run
c) There is no trade-off between the unemployment and inflation in the short-run
d) None of the above
5. The most important proposition of supply side economics

a) The lower marginal tax will increase tax revenue
b) The higher marginal tax will increase tax revenue
c) The lower marginal tax will decrease tax revenue
d) None of the above

P.T.O.



6. According to new classical theory
- The real aggregate output is a function of differences between the actual price (p) and the expected level of output
 - The real aggregate output is a function of the differences between the actual price level (p) and the expected price level (p^e)
 - The real aggregate output is a function of differences between the actual output and expected level of price
 - None of the above
7. Crowding out implies
- Expansionary fiscal policy causes an increase in the rate of interest leads to decrease in private investment
 - Expansionary monetary policy causes decreased in interest rate leads to increase in private investment
 - Both
 - None of the above
8. The major limitation in the implementation of fiscal policy is to
- Time lag (both inside and outside)
 - Budget deficit
 - Full employt. budget
 - NOTA

PART – B

Answer **any eight** questions. **Each** carries **two** marks. **(8×2=16 Marks)**

- Give the equations for the IS-LM model.
- What is interest arbitrage ?
- What is the cost of unemployment ?
- Write fisher's equations exchange.
- What is menu costs ?
- What are the principles of new classical macro economic ?
- What is wage push inflation ?
- Explain the indicators of economic variables.
- What is rationing of credit ?
- Define open market operations.
- Explain Bank Rate.



PART – C

Answer **any four** questions. **Each** carries **five** marks. **(4×5=20 Marks)**

20. For an economy with following specifications
- | | |
|-------------------|---|
| Consumption | $C = 80 + 0.8 y_d$ (y_d – disposable income) |
| Investment | $I = 52$ |
| Tax | $T = -10 + 0.25y$ |
| Govt. Expenditure | $G = 50$, Export = $X = 20$ |
| Imports | $M = 0.2y$ |
- Calculate equilibrium level of income.
 - Find the combined effects of withdrawals of subsidy by 10 and an annual increase in exports by 20.
- What is the monetarist approach to inflation ? Explain.
 - What are the basic propositions of supply side economics ?
 - Explain the mechanism through which tight monetary policy works to check inflation with graphical illustrations.
 - Explain the conflicts among the objectives of macro economic policies.
 - Write a note on Edmund Phelp's Golden Rule level of capital.

PART – D

Answer **any two** questions. **Each** carries **ten** marks. **(2×10=20 Marks)**

- Explain the main features of the new classical economics and how does the new classical model differ from the classical school.
- Explain fiscal policy measures to control inflation and how far do you think they can be effective.
- "Discretionary monetary policy can play an important role in stabilization the economy at full employment" – Discuss.
- Discuss the major issues and concerns of macro economics in India.