(7 pages) **Reg. No. :** ....

Code No. : 5482 **Sub. Code : HESM 22**

M.A. (CBCS) DEGREE EXAMINATION, APRIL 2015.

Second Semester

Economics

MACRO ECONOMICS – II

(For those who joined in July 2012 and afterwards)

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. If investment does not depend on the interest rate, then the ———— curve is ————

   (a) IS ; vertical (b) IS ; horizontal

   (c) LM ; vertical (d) LM ; horizontal

2. At a given interest rate, an increase in the nominal money supply ———— the level of income that is consistent with equilibrium in the market for real balances

   (a) raises

   (b) lowers

   (c) does not change

   (d) may either raise or lower

3. Which of the following will increase the inflation rate in the medium run?

   (a) a permanent increase in nominal money growth

   (b) a permanent increase in the price of oil

   (c) a large budget deficit

   (d) all of the above

4. Who believes that initial effect of changes in money supply operates through the asset effect?

   (a) Classical economists

   (b) Neo-classical economists

   (c) Keynesians

   (d) Monetarists

5. Peaks and troughs of the business cycle are known collectively as

   (a) volatility

   (b) turning points

   (c) equilibrium points

   (d) real business cycle events

6. According to the Mundell-Fleming model, under floating exchange rates a fiscal expansion

(a) lowers the exchange rate, but a monetary expansion raises it

(b) raises the exchange rate, but a monetary expansion or an import restriction lowers it

(c) or an import restriction lowers the exchange rate, but a monetary expansion raises it

(d) or an import restriction raises the exchange rate, but a monetary expansion lowers it

7. Starting from a position where the nation's money demand equals the money supply, and its balance of payments is in equilibrium, economic theory suggests that the nation's balance of payments would move into a deficit position if there occurred in the nation a (an)

(a) Decrease in the money supply

(b) Increase in the money demand

(c) Decrease in the money demand

(d) None of the above

8. The quantity theory of money is a theory of how

(a) the nominal value of aggregate income is determined

(b) the money supply is determined

(c) the real value of aggregate income is determined

(d) interest rates are determined

9. According to supply-side economists, as tax rates are reduced, labour supply should increase. This implies that

(a) there is no income effect when tax rates are change

(b) the substitution effect of a wage change is greater than the income effect of a wage change

(c) the income effect of a wage change is greater than the substitution effect of a wage change

(d) there is no substitution effect when tax rates are changed

10. According to the rational expectations hypothesis

(a) people do not make random mistakes in forecasting inflation

(b) people do not make avoidable mistakes in forecasting inflation

(c) people make only small mistakes in forecasting inflation

(d) people do not make mistakes in forecasting inflation

PART B — (5 × 5 = 25 marks)

Answer ALL questions choosing either (a) or (b).

Each answer should not exceed 250 words.

11. (a) Explain how interest rate is determined within IS-LM model.

Or

(b) Point out the features of IS and LM curves.

12. (a) Describe price stability objectives of monetary policy.

Or

(b) What is meant by trade-off between the rate of inflation and unemployment?

13. (a) Explain the ceiling and floor points in Hicks explanation of business cycle.

Or

(b) Explain the types of fluctuations as depicted by Samuelson.

14. (a) Discuss the assumptions of the quantity theory of money.

Or

(b) State the limitations of income theory.

15. (a) State the main objectives of supply side policies.

Or

(b) Describe measures of the fiscal policy to control inflation.

PART C — (5 × 8 = 40 marks)

Answer ALL questions choosing either (a) or (b).

Each answer should not exceed 600 words.

16. (a) Explain the difficulty of conducting domestic monetary policy under a fixed exchange rate regime with perfect capital mobility by using the extended IS-LM model.

Or

(b) Explain with the help of IS-LM curve model role of fiscal policy for stabilising economy.

17. (a) Critically examine the Okun's Law.

Or

(b) Explain the impact of changes in money supply in the Keynesian and Monetarist system.

18. (a) Discuss the Hicks Theory of Trade cycle. How does it differ from Samuelson's model?

Or

(b) Analyse the effects of devaluation in the context of the monetary model.

19. (a) Explain the Keynes theory of money and prices. How far is it an improvement on the traditional a quantity theory of money?

Or

(b) Critically evaluate the income theory of money.

20. (a) Analyse the Rational Expectation Theory.

Or

(b) Critically evaluate the Interaction of Monetary and Fiscal Policy using IS model.

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