D 122348 **(Pages : 5)** **Name.......................................**

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SECOND SEMESTER M.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, APRIL 2025

(CBCSS)

Economics

ECO 2C 06—MACRO ECONOMICS : THEORIES AND POLICIES—II

(2019 Admission onwards)

Time : Three Hours Maximum : 30 Weightage

Part A (Multiple Choice Questions)

Answer **all** *questions.*
Each question carries a weightage of 1/5.

1. The classical model assumes that wages and prices are :
   - (a) Sticky and inflexible in the short run.
   - (b) Highly flexible and adjust quickly to changes in demand and supply.
   - (c) Determined by government regulations and policies.
   - (d) Irrelevant in determining output and employment.
2. Supply-side macroeconomics is often associated with the belief that :
   - (a) Government intervention is necessary to stabilize the economy.
   - (b) Economic growth is primarily driven by consumer spending.
   - (c) Lower taxes and deregulation can boost economic performance.
   - (d) Inflation should be the primary focus of macroeconomic policy.
3. According to the real business cycle model, recessions are primarily the result of :
   - (a) Inadequate consumer spending.
   - (b) Insufficient investment by firms.
   - (c) Policy-induced distortions in resource allocation.
   - (d) Technological advancements.

Turn over

4. The financial crisis of 2008-2009 played a significant role in the Keynesian resurgence as it highlighted the :
   (a) Effectiveness of supply-side policies in promoting economic recovery.
   (b) Importance of reducing government spending to control deficits.
   (c) Need for expansionary fiscal policy to stimulate aggregate demand.
   (d) Benefits of deregulation and free-market principles.
5. New Political Macroeconomics argues that politicians and policymakers :
   (a) Act solely in the public interest.
   (b) Pursue policies to maximize economic growth.
   (c) Are subject to political pressures and incentives.
   (d) Have limited influence on macroeconomic outcomes.
6. A decrease in the availability of credit and tighter lending standards would likely result in :
   (a) A rightward shift in aggregate demand.
   (b) A leftward shift in aggregate demand.
   (c) A rightward shift in aggregate supply.
   (d) A leftward shift in aggregate supply.
7. The concept of nominal rigidities in New Keynesian Economics refers to the idea that :
   (a) Prices and wages are slow to adjust in response to changes in demand and supply conditions.
   (b) Monetary policy has a limited impact on aggregate demand.
   (c) Inflation expectations are determined by past inflation rates.
   (d) Fiscal policy is more effective than monetary policy in stabilizing the economy.
8. John Maynard Keynes made significant contributions to international macroeconomics through his analysis of :
   (a) Fiscal policy and its impact on domestic demand.
   (b) Monetary policy and exchange rate determination.
   (c) International trade and comparative advantage.
   (d) Financial markets and capital flows.

9. The expectations-augmented Phillips curve is consistent with the notion that :
   (a) Inflation and unemployment have a stable inverse relationship in the short run.
   (b) Wage adjustments are the primary driver of inflationary pressures.
   (c) Monetary policy can effectively stabilize the economy in the long run.
   (d) Inflation expectations are shaped by past inflation rates.
10. One of the key propositions of the monetarist view is that :
    (a) Government should play a proactive role in managing aggregate demand.
    (b) The money supply should be controlled through discretionary monetary policy.
    (c) Central banks should target stable and predictable money supply growth.
    (d) Interest rates should be manipulated to stabilize financial markets.
11. The rational expectations hypothesis has had a significant impact on :
    (a) Monetary policy, emphasizing the importance of credibility and transparency.
    (b) Fiscal policy, advocating for increased government spending during recessions.
    (c) Trade policy, promoting free trade and globalization.
    (d) Income distribution, highlighting the role of wealth redistribution.
12. Independence of a central bank is often associated with :
    (a) Fiscal policy decisions.
    (b) Political stability and credibility.
    (c) Income distribution policies.
    (d) Exchange rate fluctuations.
13. The Lucas critique suggests that using historical relationships between variables may :
    (a) Overestimate the impact of policy changes.
    (b) Underestimate the impact of policy changes.
    (c) Accurately predict the outcomes of policy changes.
    (d) Have no bearing on policy outcomes.

14. The implicit wage contract model suggests that during economic downturns, firms are more likely to :

    (a) Reduce wages to maintain profitability.

    (b) Increase wages to retain skilled workers.

    (c) Implement hiring freezes and reduce labor force.

    (d) Engage in collective bargaining with labor unions.

15. According to the monetary approach, a decrease in the money supply is likely to result in :

    (a) An improvement in the current account balance.

    (b) A deterioration in the current account balance.

    (c) An increase in foreign direct investment.

    (d) A decrease in domestic investment.

(15 × 1/5 = 3 weightage)

Part B (Very Short Answer Questions)

Answer any **five** *questions.*
Each question carries a weightage of 1.

16. Define Real rigidities.
17. What is a policy ineffectiveness argument ?
18. What is Hibbs partisan model ?
19. Define Supply shocks.
20. What is a Laffer Curve ?
21. What is the significance of the Quantity Theory of Money ?
22. What is a Wage-Price Spiral ?
23. Define NAIRU.

(5 × 1 = 5 weightage)

Part C (Short Answer Questions)

Answer any **seven** *questions.*
Each question carries a weightage of 2.

24. Discuss Keynes's analysis of the labour market.
25. Give an evaluation of the expectations augmented Philips curve analysis.
26. Write a short note on the small menu cost model.
27. How much important is an independent central bank to a country ?
28. Discuss the various aspects of Hysteresis.
29. Discuss in detail the contribution of Keynes to international macroeconomics.
30. Discuss briefly the political economy of debt and deficits.
31. Discuss the inter temporal substitutional model.
32. Describe the Core propositions of the new Keynesian model.
33. Discuss the Rational expectation hypothesis.

(7 × 2 = 14 weightage)

Part D (Essay Questions)

Answer any **two** *questions.*
Each question carries 4 *weightage.*

34. Critically evaluate the Insider outsider model.
35. Evaluate the macroeconomic policy in a real business cycle model.
36. Discuss the monetary approach to the balance of payment.
37. Discuss the significance of the Nordhaus opportunistic model.

(2 × 4 = 8 weightage)