D 131137   (Pages : 4)   Name...

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FIRST SEMESTER M.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, NOVEMBER 2025

(CBCSS)

Economics

ECO 1C 02—MACROECONOMICS : THEORIES AND POLICIES—I

(2019 Admission onwards)

Time : Three Hours   Maximum : 30 Weightage

Part A

Answer **all** *questions.*

Each bunch of **five** *questions carries a weightage of* 1/5.

Multiple Choice Questions :

1. An increase in the MPC :

    (a) Raises the value of multiplier.

    (b) Lower the value of multiplier.

    (c) Has no impact on the value of multiplier.

    (d) All the above.

2. Which of the following models of business cycle generates constrained cycles ?

    (a) Samuelson's model.   (b) Hick's model.

    (c) Kaldor's model.   (d) All of the above.

3. In Keyne's equation of Absolute Income Hypothesis, $C = \alpha_0 + by$, where C = Consumption expenditure, α_0 = Consumption expenditure when income (y) is zero ; and b = MPC, then which of the statement is false ?

    (a) MPC is dependent on the level of income.

    (b) MPC is independent of the level of income.

    (c) APC > MPC.

    (d) APC falls as income increase.

Turn over

4. Tobin's *q*-theory of investment indicates that firms add to their stock of capital when :

   (a) The market value of their financial assets exceeds the book value of their real assets.

   (b) The market value of their real assets exceeds the book value of their financial assets.

   (c) The market value of their financial assets exceeds the replacement value of their real assets.

   (d) The replacement value of their real assets exceeds the market value of their financial assets.

5. If the economy is on the IS curve, but is to the left of the LM curve, aggregate output will ———————— and the interest rate will ———————.

   (a) Fall ; fall.   (b) Fall ; rise.

   (c) Rise : rise.   (d) Rise ; fall.

6. According to the liquidity preference theory, the demand for money is ——————— related to aggregate output and ——————— related to interest rate.

   (a) Positively ; positively.   (b) Positively ; negatively.

   (c) Negatively ; positively.   (d) Negatively ; negatively.

7. If fiscal policy is trying to promote stability and economic growth through tax cuts, what type of policy is fiscal policy using ?

   (a) Restrictive fiscal policy.   (b) Expansionary fiscal policy.

   (c) Tight money policy.   (d) Ease money policy.

8. IS-LM model is :

   (a) Partial equilibrium analysis.   (b) Labour market equilibrium analysis.

   (c) General equilibrium analysis.   (d) BoP equilibrium analysis.

9. The negative relation between investment spending and the interest rate is what gives the ———————— curve its ——————— slope

   (a) LM ; upward.   (b) LM ; downward.

   (c) IS ; upward.   (d) IS ; downward.

10. Who introduce the twin demand for money ?

   (a) Marshall.   (b) Keynes.

   (c) Hicks.   (d) Friedman.

11. Industries that are extremely sensitive to the business cycle are the :

    (a) Durable goods and service sectors.

    (b) Nondurable goods and service sectors.

    (c) Capital goods and nondurable goods sectors.

    (d) Capital goods and durable goods sectors.

12. According to Milton Friedman, Quantity Theory of Money deals with :

    (a) Prices.   (b) Supply of Money.

    (c) Demand for Money.   (d) Income.

13. 'Bandwagon effect' is found in :

    (a) Life cycle hypothesis.   (b) Relative income hypothesis.

    (c) Absolute income hypothesis.   (d) Permanent income hypothesis.

14. According to Permanent income hypothesis, all increase in :

    (a) Permanent income are saved.   (b) Permanent income are consumed.

    (c) Transitory income are saved.   (d) Transitory income are consumed.

15. The Philips curve shows :

    (a) The inverse relation between inflation and unemployment

    (b) The inverse relation between real and nominal wages

    (c) Positive relation between inflation and money supply.

    (d) The relation between tax rate and tax revenue.

$(15 \times 1/5 = 3 \text{ weightage})$

Part B (Very Short Answer Questions)

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

16. Crowding out effect.

17. High powered money.

18. How can government manage the business fluctuations ?

Turn over

19. Recession.

20. Investment function.

21. Monetary theory of inflation.

22. User cost of capital.

23. Stabilisation policy.

(5 × 1 = 5 weightage)

Part C (Short Answer Questions)

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

24. Explain accelerator theory of investment.

25. Explain the propositions of rational expectation hypothesis.

26. Discuss over investment theory of Hayek.

27. Briefly explain the Endogenous model of money supply.

28. Explain the Philips curve analysis.

29. Describe the IS-LM model with equilibrium in goods and money market.

30. Briefly examine the classical theory of demand for money.

31. What is income policy ? Can it lead to inflation in the economy ?

32. Discuss Keynesian theory of business cycle.

33. Explain the liquidity preference theory of interest.

(7 × 2 = 14 weightage)

Part D (Essay Type Questions)

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

34. What is consumption function ? Briefly explain the current income theories of consumption.

35. Critically examine Samuelsons theory of business cycle.

36. Explain the neoclassical version of the three sector macro model.

37. Discuss the views on the original expectations-augmented Philips curve and the rational expectation hypothesis about inflation-unemployment trade-off.

(2 × 4 = 8 weightage)