

**SIXTH SEMESTER (CUCBCSS—UG) DEGREE EXAMINATION  
MARCH 2021****Economics****ECO 6B 11—MACROECONOMICS—II**

Time : Three Hours

Maximum : 80 Marks

**Section A (Objective Type Questions)***Answer all questions.**Each question carries 1 mark.*

1. The classical economists believed that if the quantity of money is doubled :
  - (a) Output would double.
  - (b) Prices would fall.
  - (c) Prices would double.
  - (d) Prices would be halved.
2. In Friedman's modern quantity theory of money, velocity depends upon :
  - (a) Interest rates.
  - (b) The ratio of actual to permanent income.
  - (c) The ratio of interest rates to actual income.
  - (d) The ratio of prices to interest rates.
3. Demand pull inflation is due to :
  - (a) An increase in cost.
  - (b) An outward shift in aggregate supply.
  - (c) A reduction in interest rate.
  - (d) A reduction in government spending.
4. Phillips curve shows :
  - (a) Trade off between inflation and unemployment.
  - (b) Inverse relationship between inflation and unemployment.
  - (c) Positive relationship between inflation and unemployment.
  - (d) Both (a) and (b) are correct.

**Turn over**

5. The natural rate of unemployment is the rate of unemployment :
- (a) Consistent with both the wage-setting and price-setting equations.
  - (b) Where the markup of prices over costs is zero.
  - (c) Where the markup of prices over costs is equal to its historical value.
  - (d) That occurs when the money market is in equilibrium.
6. In the IS-LM model, a decrease in output would be the result of a (an) :
- (a) Increase in money demand.
  - (b) Decrease in taxes.
  - (c) Increase in the money supply.
  - (d) Increase in government purchases.
7. In India, which of the following is the correct formula for calculating the Broad money  $M_3$
- (a) Currency with the public+ demand deposit with the bank+ other deposit with RBI.
  - (b)  $M_3 + \text{All deposits with post office savings bank.}$
  - (c)  $M_1 + \text{time deposit with the banking system.}$
  - (d)  $M_1 + \text{saving deposit of post office savings bank.}$
8. The situation of liquidity trap refers to :
- (a) A floor level of price when people buy goods.
  - (b) people want to hold cash because there is too much liquidity.
  - (c) There is an excess foreign exchange reserve in the economy.
  - (d) The rate of interest is so low that no one wants to hold interest bearing asset and p wants to hold cash.
9. Classical view on full employment is best explained as :
- (a) Economy will always have a great deal of unemployment.
  - (b) Economy will usually have a great deal of unemployment.
  - (c) Economy will occasionally have some unemployment, but move automatically toward employment.
  - (d) Economy will never have full employment.

10. At the natural rate of unemployment, long run Phillips curve is :
- (a) L shaped. (b) Vertical.  
(c) Rectangular hyperbola. (d) Convex to the origin.
1. The article "Mr. Keynes and classicals" was written by :
- (a) J. R. Hicks. (b) Milton Friedman.  
(c) V. Hayek. (d) A. C. Pigou.
2. IS schedule shows :
- (a) Relation between money market and interest rate.  
(b) Interest rate and national income.  
(c) Interest rate and bond market.  
(d) None of these.

(12 × 1 = 12 marks)

**Section B (Very Short Answers)**

*Answer at least six questions.  
Each question carries 3 marks.  
All questions can be attended.  
Overall Ceiling 18.*

- . What is natural rate of unemployment ?
- . Define sacrifice ratio.
- . What is money multiplier ?
- . Distinguish between structural inflation and cost push inflation.
- . Briefly explain the Okun's law.
- . What are the important reasons for stagflation ?
- . Distinguish between voluntary unemployment and involuntary unemployment.
- . Distinguish between inside money and outside money.
- . What are the important measures of money supply in India ?
- . What is meant by inflationary gap ?
- . What are the different phases of business cycle ?
- . What are the important determinants of demand for money ?

(6 × 3 = 18 marks)

Turn over

**Section C (Short Essays)**

*Answer at least four questions.  
Each question carries 6 marks.  
All questions can be attended.  
Overall Ceiling 24.*

25. Explain the classical theory of demand for money.
26. Discuss the Keynesian motive for money holding.
27. Discuss the shortrun and long run Phillips curve.
28. Briefly discuss the Hawtreys's theory of trade cycle.
29. What is BP curve ? Analyze the shift in BP curve ?
30. Critically examine the restatement of Quantity theory of money.
31. Distinguish between money and near money. What are the important functions of money?
32. Discuss the Keynesian liquidity preference theory of interest.

(4 × 6 = 24)

**Section D (Essays)**

*Answer any two questions.  
Each question carries 13 marks.*

33. Critically examine the modern theories of inflation.
34. What is meant by trade cycle ? Discuss the Hayek's theory of trade cycle.
35. Analyze the equilibrium of a two sector economy using the IS-LM model.
36. What are the important fiscal, monetary and other policy instruments to counter inflation?

(2 × 13 = 26)