D 140518 **(Pages : 4)** **Name..................................**

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SECOND SEMESTER M.A. (CBCSS) REGULAR/SUPPLEMENTARY DEGREE EXAMINATION, APRIL 2026

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 1/5 *weightage.*

1. In the classical model, full employment refers to a situation where :
   - (a) All individuals in the economy are employed.
   - (b) The unemployment rate is zero.
   - (c) The labour market clears and there is no involuntary unemployment.
   - (d) The level of employment is at its maximum potential.
2. Supply-side policies generally aim to :
   - (a) Increase aggregate supply.
   - (b) Reduce inflationary pressures.
   - (c) Stabilize exchange rates.
   - (d) Promote international trade.
3. According to the Lucas critique, the effectiveness of economic policy depends on :
   - (a) The size of the government budget deficit.
   - (b) The level of government debt.
   - (c) The credibility of policymakers' commitments.
   - (d) The central bank's control over interest rates.
4. The implicit wage contract model emphasizes the importance of :
   - (a) Labour market flexibility and mobility.
   - (b) Government intervention in setting minimum wage levels.
   - (c) Stable and predictable wage growth for employees.
   - (d) Competitive market forces in determining wage levels.
5. The real business cycle model implies that business cycles are primarily driven by :
   - (a) Changes in aggregate demand.
   - (b) Changes in aggregate supply.

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(c) Government policies and regulations.

(d) International trade imbalances.

6. New Political Macroeconomics is a field of study that focuses on :

   (a) The role of politics in shaping macroeconomic outcomes.

   (b) The impact of monetary policy on political decision-making.

   (c) The relationship between political institutions and economic growth.

   (d) The influence of interest groups on fiscal policy.

7. An improvement in labour productivity due to technological advancements would typically cause :

   (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.

8. The monetary approach to the balance of payments emphasizes the role of :

   (a) Fiscal policy in achieving external equilibrium.

   (b) Price levels and inflation differentials.

   (c) Trade barriers and protectionist measures.

   (d) Government subsidies and export promotion policies.

9. The primary advantage of an independent central bank is :

   (a) Higher inflation rates.

   (b) Lower interest rates.

   (c) Greater transparency in monetary policy.

   (d) Reduced effectiveness in controlling inflation.

10. New Keynesian economics emphasizes the role of :

   (a) Aggregate supply in determining output and employment.

   (b) Long-run equilibrium in the macroeconomy.

   (c) Rational expectations and forward-looking behaviour.

   (d) Government intervention to stabilize the economy.

11. Keynes argued that in times of economic downturn, countries should :

   (a) Increase government spending to stimulate domestic demand.

   (b) Reduce government spending to control budget deficits.

   (c) Adopt a fixed exchange rate system to stabilize international trade.

   (d) Promote free trade and reduce trade barriers.

12. According to the expectations-augmented Phillips curve, if individuals expect higher inflation :
    - (a) Unemployment will decrease due to increased aggregate demand.
    - (b) Wages growth will slow down, leading to lower inflation rates.
    - (c) Unemployment will increase as firms reduce production to control costs.
    - (d) Price levels will remain unchanged as inflation expectations become self-fulfilling.
13. Monetarists, such as Milton Friedman, argue that the primary cause of the Great Depression was :
    - (a) Excessive government intervention in the economy.
    - (b) Inadequate aggregate demand and monetary policy.
    - (c) Structural imbalances in the economy.
    - (d) Speculative bubbles in financial markets.
14. The key idea behind the rational expectations hypothesis is that economic agents :
    - (a) Always make rational decisions based on perfect information.
    - (b) Tend to be overly optimistic in their expectations.
    - (c) Base their expectations on past experiences and historical data.
    - (d) Form expectations that are unbiased and consistent with the available information.
15. According to the monetary approach to the balance of payments, changes in the balance of payments are primarily driven by :
    - (a) Fiscal policies and government spending.
    - (b) Exchange rate fluctuations.
    - (c) Monetary factors and changes in money supply.
    - (d) Trade barriers and protectionist policies.

(15 × 1/5 = 3 weightage)

Part B (Very Short Answer Questions)

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

16. What is the small menu cost model ?
17. Define Wage Rigidity.
18. What are the causes of the Great Depression ?
19. What is Lucas critique ?
20. What is Keynesian resurgence ?
21. Define Laffer Curve.

Turn over

22. What is the reason behind the emphasis on Monetary Policy by Monetarists ?
23. What is an insider-outsider model ?

(5 × 1 = 5 weightage)

Part C (Short Answer Questions)

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

24. What are Rational political business cycles ?
25. Discuss the relevance of the Lucas's surprise supply function.
26. Write a short note on the Monetary approach to BoP.
27. What is known as Keynesian policy conclusion ?
28. Write down the implications of the wage contract model.
29. Write a short note on the classical theory of interest rate.
30. What was the monetary view of Great Depression ?
31. Discuss the salient features of the Laffer curve.
32. Write a short note on the New Keynesian economics.
33. Explain the Nordhaus opportunist model.

(7 × 2 = 14 weightage)

Part D (Essay Type Questions)

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

34. Discuss the inter temporal substitution model.
35. Discuss the contrast between Keynes's perspective on money and the quantity theory of money.
36. Discuss in detail the efficiency wage theories.
37. Discuss in detail the salient features of the expectations augmented Philips curve analysis.

(2 × 4 = 8 weightage)