

MA ECONOMICS  
SECOND SEMESTER  
MACRO-ECONOMIC ANALYSIS-II  
MEC – 202

**SET  
A**

**[USE OMR SHEET FOR OBJECTIVE PART]**

Duration: 3 hrs.

Full Marks: 70

Time: 30 mins.

**(Objective)**

Marks: 20

*Choose the correct answer from the following:*

*1 × 20 = 20*

1. The school of thought that emphasizes the natural tendency for an economy to move toward equilibrium full employment without inflation is known as the:  
a. Keynesian school    b. Supply- side school  
c. Non-interventionist school    d. Classical school
2. The classical economists argued that the production of goods and services (supply) generates an equal amount of total income and, in turn, total spending. This theory is called:  
a. Keynes' General Theory    b. Say's Law  
c. The "animal spirits" theory    d. The law of autonomous consumption
3. In the classical model, the aggregate supply curve determines the \_\_\_\_\_.  
a. Money supply    b. Inflation rate  
c. Level of output    d. Price level
4. In the Keynesian model, liquidity preference refers to the \_\_\_\_.  
a. Demand for consumer goods    b. Demand for capital  
c. The supply of money    d. Demand for money
5. Who developed the concept of IS- LM model?  
a. Hicks and Hansen    b. J. M. Keynes  
c. Adam Smith    d. None of the above
6. When rate of interest falls, level of investment will –  
a. Increase    b. Decrease  
c. No effect on investment    d. Both a & b
7. The curve which shows different equilibrium levels of national income with various rates of interest is called  
a. LM curve    b. IS curve  
c. Income curve    d. None of the above
8. IS curve slopes –  
a. Upward    b. Downward  
c. Horizontal    d. Vertical

9. The steepness of IS curve depends on---
- The elasticity of investment demand curve;
  - The size of the multiplier;
  - Demand for money
  - Both a & b
10. The position of IS curve depends on---
- Rate of interest
  - Rate of investment,
  - Autonomous expenditure
  - None of the above
11. Which of the following best defines the LM curve?
- Illustrates the effects of changes in  $r$  on desired money holdings by individuals
  - Illustrates the effects of changes in  $r$  on investment.
  - The combinations of  $r$  and  $Y$  that maintain equilibrium in the goods market.
  - The combinations of  $r$  and  $Y$  that maintain equilibrium in financial markets.
12. Demand-pull inflation may be caused by:
- An increase in costs
  - A reduction in interest rates
  - A reduction in government spending
  - An outward shift in aggregate supply
13. Tobin's model of the speculative demand for money improves on Keynes's analysis by showing that
- The speculative demand for money is interest insensitive.
  - The transactions demand for money is interest insensitive.
  - People will hold a diversified portfolio.
  - People will hold money or bonds but not both.
14. According to the Phillips curve, unemployment will return to the natural rate when:
- Nominal wages are equal to expected wages
  - Real wages are back at long-run equilibrium level.
  - Nominal wages are growing faster than inflation
  - Inflation is higher than the growth of nominal wages
15. In a boom:
- Unemployment is likely to fall
  - Prices are likely to fall
  - Demand is likely to fall
  - Imports are likely to fall
16. When aggregate economic activity is declining, the economy is said to be in
- A contraction
  - An expansion.
  - A trough
  - A turning point.
17. The term business cycle refers to \_\_\_\_\_.
- The ups and downs in production of commodities.
  - The fluctuating levels of economic activity over a period of time.
  - Decline in economic activities over prolonged period of time.
  - Increasing unemployment rate and diminishing rate of savings.
18. Select the odd out:
- Expansion
  - Boom
  - Upswing
  - Trough

19. The Balance of Payment account records the inflow of foreign exchange on the \_\_\_\_\_
- a. Debit side
  - b. Credit side
  - c. Both a and b
  - d. None of the above
20. Balance of Payments uses the \_\_\_\_\_ system of accounting.
- a. Single-entry
  - b. Double-entry
  - c. Cash basis
  - d. Accrual basis

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**( Descriptive )**

Time : 2 Hr. 30 Mins.

Marks : 50

[ Answer question no.1 & any four (4) from the rest ]

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|----|---|--------|
| 1. | Explain monetary and fiscal policy mix in general equilibrium.  | 10     |
| 2. | a) Explain the movement of LM curve.                            | 4+6=10 |
|    | b) Why the IS-curve slopes downwards?                           |        |
| 3. | a) Explain how to draw aggregate demand curve from IS-LM model. | 6+4=10 |
|    | b) Why does IS curve shift to the right?                        |        |
| 4. | a) What is risk aversion theory of liquidity preference?        | 4+6=10 |
|    | b) Elaborate Baumol's inventory theory of demand for money.     |        |
| 5. | a) What is demand-pull inflation?                               | 6+4=10 |
|    | b) What are the causes of inflation?                            |        |
| 6. | a) Illustrate Friedman's modern quantity theory of money.       | 6+4=10 |
|    | b) Explain the concept of Phillips curve.                       |        |
| 7. | a) Explain the different phases of Business cycle.              | 4+6=10 |
|    | b) Elaborate Schumpeter's innovation theory of business cycle.  |        |
| 8. | a) Explain different components of balance of payments.         | 4+6=10 |
|    | b) What are the main causes of disequilibrium in BOP?           |        |

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