



**ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE-27**  
**M.A. ECONOMICS – I SEMESTER**  
**SEMESTER EXAMINATION: OCTOBER 2018**  
**EC 7318: MACROECONOMIC THEORY**

Register number:

Date: 27/10/2018

**Time-2 ½ hrs**

**Max Marks-70**

**This paper contains ONE printed page and THREE parts**

**PART A Answer any FIVE of the following**

**2 X5=10**

1. What is Okun's law?
2. Give the meaning of the term classical dichotomy.
3. Explain why the tax multiplier is negative and smaller in absolute value than government expenditure multiplier.
4. What is balanced budget multiplier? Derive the balanced budget multiplier in a closed economy with fixed interest rate and price.
5. Explain the term borrowing constraint and explain the case of binding borrowing constraint with the help of a diagram.
6. Define the term 'time inconsistency'.
7. Explain the term thick market effects and crowding effects in the context of matching function in search and matching model of unemployment.

**PART B Answer any THREE of the following**

**10 X3 = 30**

8. Discuss the major determinants of output and employment in classical system.
9. Suppose for a particular economy and period  $C = 10 + 0.9Y$  and  $I = 60$ , Find the equilibrium value of  $Y$ ? What are the values of autonomous saving and marginal propensity to save? Find the impact on  $Y$  if  $I$  is 50.
10. Define and explain the concept of MEC and MEI. Illustrate graphically the relationship between MEC and MEI.
11. Explain how one can derive the Phillips curve from the aggregate supply curve.
12. Discuss the efficiency wage theory. Explain how it can cause unemployment.

**PART B Answer any TWO of the following**

**15 X2 = 30**

13. Explain using IS LM model why the autonomous expenditure multiplier is lesser in size in absence of accommodative monetary policy.
14. What were Keynes's conjectures about the consumption function? Describe the evidence that was consistent with Keynes's conjectures and the evidence that was inconsistent. How do the life cycle and permanent income hypothesis resolve the seemingly contradictory pieces of evidence regarding consumption behaviour?
15. Derive the aggregate supply curve in presence of imperfect information.

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