



Register number:

Date:

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

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. Define the term personal disposable income. How one can obtain personal disposable income from national income?
2. What is quantity theory of money? State the Fisher's equation of exchange.
3. Define paradox of thrift.
4. What is Pigou effect?
5. Differentiate between permanent income and transitory income.
6. What is NAIRU?
7. Explain the concept of Ricardian Equivalence.

PART B Answer any THREE of the following

10 X 3 = 30

8. Explain how interest rate is decided in the classical theory.
9. Consider an economy in which $C = 10 + 3/4Y$, $I = 30$ and initially suppose $G=T=0$. Let $Y_f = 200$ be the full employment level of income. By how much should $G-T$ be raised to attain full employment? If this government expenditure was fully financed by tax, what level of government expenditure was required to attain full employment?
10. Explain the concept of the Phillips curve. Is there any difference between monetarist and Keynesian views of the Phillips curve? Give your opinion.
11. Use Fisher's model of consumption to analyze the impact of change in real interest rate.
12. Explain the Baumol – Tobin model on transaction theory of money demand.

PART C Answer any TWO of the following

15 X2 = 30

13. Derive the government expenditure multiplier under a fixed price and fixed interest rate situation (Simple Keynesian Model) and compare it with the case when interest rate is flexible. Explain why the multiplier is lower under a flexible interest rate system compared to the fixed interest rate system.
14. Show how IS and LM curves look in the monetarist view. Use these IS and LM curves to illustrate the monetarist conclusions about the relative effectiveness of monetary and fiscal policy.
15. Discuss how search and matching theory explains unemployment.