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. Differentiate between stock variable and flow variable. Identify the following as stock or flow variable: Consumption, Investment, GDP, Net Worth (Asset – Liabilities).
2. What are transfer payments?
3. Define crowding out effect.
4. What is the difference between adaptive expectation and rational expectation?
5. State the random walk hypothesis.
6. What is Tobin's q theory of investment?
7. Explain the term 'impossible trinity'.

PART B   Answer any THREE of the following   10 X3 = 30

8. Explain the classical theory of labour supply and labour demand.
9. State the assumptions and explain the simple Keynesian model (SKM) of income determination. Discuss on the stability of this (SKM) model.
10. Using Fisher's model of inter temporal consumption compare the case in which the consumer faces a binding borrowing constraint and the case in which he does not.
11. Give two explanations why the real wage may remain above the level that equilibrate labour supply and labour demand.
12. Discuss the problem of time inconsistency and its relation with the tradeoff between inflation and unemployment.

PART C   Answer any TWO of the following   15 X 2 = 30

13. Using IS-LM analysis explain which policy is more effective in the following scenarios
    i)   Liquidity trap
    ii)   Money demand is interest rate inelastic
    iii)   Investment is interest rate inelastic
14. Use IS and LM curves to illustrate the monetarist and Keynesian positions about the relative effectiveness of monetary and fiscal policy during the Great Depression of 1930s.
15. Explain any two theories of aggregate supply that shows that presence of market imperfection causes deviation of the supply curve from the classical benchmark.