

**MASTER OF ARTS (ECONOMICS)**

**Term-End Examination**

**December, 2006**

**MEC-002 : MACROECONOMIC ANALYSIS**

*Time : 3 hours*

*Maximum Marks : 100*

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**Note :** *Attempt questions from each section as directed.*

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**SECTION A**

**Long Answer Questions :** *Answer any **two** questions from this section in about 600 words each.*

1. Why is the IS curve sloped negatively ? What does it signify ? 20
  
2. Distinguish between natural, cyclical and structural rates of unemployment. Critically examine the Keynesian view on unemployment. 20
  
3. How is the exchange rate determined under flexible exchange rate system ? What are the factors that affect flexible exchange rate ? 20
  
4. What do you understand by the steady state ? Under what conditions does an economy reach the golden rule ? 20

**SECTION B**

**Medium Answer Questions** : Answer any **three** questions from this section in about 250 words each.

5. Explain the circular flow of income in an economy through appropriate diagram. 12
6. How is the equilibrium level of output achieved in the Keynesian model ? What is meant by balanced budget multiplier ? 12
7. Explain the concept of Phillip's curve. Why is it vertical in the long run ? 12
8. Explain the political business cycle theory of Kalecki. 12
9. Distinguish between the new Classical and new Keynesian views with respect to price rigidity. 12
10. Explain the consumption behaviour of households in light of the life cycle hypothesis. 12

**SECTION C**

**Short Answer Questions** : Answer any **three** questions from this section in about 100 words each.

11. An objective probability distribution of expectations does not exist. Comment. 8
12. Why is monetary policy ineffective when the economy is passing through a liquidity trap ? 8
13. Distinguish between the concepts of Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER). 8
14. Distinguish between real rigidities and nominal rigidities in an economy. 8
15. Write a short note on real business cycles. 8
16. Write a short note on the role of the government in Ramsey model. 8