

MASTER OF ARTS (ECONOMICS)

Term-End Examination

December, 2007

MEC-002 : MACROECONOMIC ANALYSIS

Time : 3 hours

Maximum Marks : 100

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

SECTION A

Long Answer Questions : *Answer any **two** questions from this section in about 500 words each.*

1. The Phillips Curve depicts the relationship between inflation and unemployment. How is it modified to explain stagflation ? 20

2. Why do real rigidities occur in goods and credits markets ? 20

3. When does an economy follow a steady state growth ? How does it move from steady state to golden rule ? 20

4. How is exchange rate determined under fixed exchange rate system ? Show that fiscal policy is effective while monetary policy is ineffective in fixed exchange rate system. 20

SECTION B

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

5. Explain with an example the mechanism through which investment multiplier operates. 12
6. Explain the important tenets of real business cycle theory. 12
7. How can the concept of menu costs be used to rationalise nominal price rigidities ? 12
8. Explain the concept of steady state in Solow model. What is the impact of technological progress on steady state ? 12
9. Explain why aggregate supply curve is positively sloped in the short run but vertical in the long run. 12
10. Reconcile the discrepancy between long-run and short-run consumption function on the basis of life cycle hypothesis. 12

SECTION C

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

11. Write a short note on the nature of expectations in Keynes' theory. 8
12. Explain how expectations influence policy-making. 8
13. Enumerate the conditions wherein a country opts for currency devaluation. 8
14. Explain the concept of rational expectations. 8
15. Why should a sectoral shift in labour demand generate higher aggregate unemployment ? 8
16. What do you mean by NAIRU ? What are its implications ? 8