

**Avinashilingam Institute for Home Science and Higher Education for  
Women Coimbatore-641 043**

**Continuous Internal Assessment II-April, 2025**

**Class: I PG**  
**Major: Economics**

**Semester: II**  
**23MECC08 – Macro Economic Theory II**

**Time: 2hours**  
**Maximum Marks: 60**

**Course Learning Outcomes:**

**CO1:** Compare and assimilate classical and Keynesian approach to employment-output determination.

**CO2:** Understand the importance of wage flexibility and price expectations on output, employment and inflation.

**CO3:** Analyse the impact and relative strengths of fiscal and monetary policies in affecting gross domestic product.

**CO4:** Evaluate the New classical and New Keynesian approaches to macroeconomic issues

**CO5:** Apply Macroeconomic reasoning to analyse economic problems

**Part-A**

**Choose the Correct Answer**

**6X1=6**

1. What measure can be used to correct the inflationary gap under the monetary policy? CO2:K2

- a) Reducing the availability of credit      b) Cutting the government expenditure  
c) Increasing taxation                              d) Reducing taxation

2. An increase in investment is caused by

CO1:K3

- a) Lower interest rates    b) Expectations of Lower NI    c) Increase MPC    d) Decrease MPC

3. A period of expansion and contraction measured by real GDP is called

CO3:K4

- a) Business Cycle      b) Expansion    c) Recession    d) Contraction

4. Which of the following is an example of fiscal policy

CO4:K3

- a) Change in interest rates      b) Change in tax rates  
c) Controlling Money Supply      d) Manipulating bank rates

5. The phenomenon of sticky wages usually leads to ..... unemployment during recession.

CO2:K3

- a) Higher      b) Lower      c) Change      d) No change

6. Ration theory is introduced by

CO3:K4

- a) LUCAS      b) Cooper      c) John      d) Mankiw

**Part-B**

**Answer should not exceed 200 words or one page**

**3 X 6=18**

7a. Discuss the IS-LM model with government sector.

CO3:K3

(or)

7b. Explain the significance of new classical macroeconomic model.

CO4:K2

8a. Differentiate between sticky nominal wages and sticky nominal prices.

CO5:K4

(or)

8b. Analyse the performance of LUCAS aggregate supply function.

CO4:K5

9a. Explain the maintenance of rational expectations.

CO3:K4

(or)

9b. Critically test the hypotheses on which the new classical macroeconomics.

CO5:K2

**Part-C**

**Answer should not exceed 600 words or four pages**

**3X12=36**

10a. How does new Keynesian economics differ from new classical macroeconomics. CO3:K4

(or)

10b. How does new Keynesian economist explain nominal price rigidity economics?

CO4:K5

11a. Explain the new Keynesian theory of nominal price rigidity.

CO3:K2

(or)

11b. Critically examine the menu cost hypothesis of sticky nominal prices.

CO4:K4

12a. Explain how efficiency wage theory provides an explanation of involuntary unemployment

as an equilibrium phenomenon.

CO5:K2

(or)

12b. What is coordination failure? Explain how coordination failure arises?

CO2:K2

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**Staff In-charge: Dr.C.Parvathi**