



**Avinashilingam Institute for Home Science and Higher Education for Women**  
(Deemed to be University under Category 'A' by MHRD, Estd. u/s 3 of UGC Act 1956)  
Re-accredited with 'A+' Grade by NAAC. Recognised by UGC Under Section 12B  
Coimbatore - 641 043, Tamil Nadu, India

**Master's Degree Examination – June / July 2021**  
**II Semester**

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

**Time : 3 Hours**  
**Max. Marks : 100**

**20MECC08 Macro Economic Theory II**

**Part A**  
**Choose the Correct Answer**

**10 x 1 = 10**

- Adam Smith revelations centered around free trade and a concept called the \_\_\_\_\_  
a. Invisible hand      b. employment      c. trade      d. income
- Keynesian economics advocated for a more controlling role for \_\_\_\_\_ governments in economic affairs  
a. capitalism      b. mixed      c. central      d. none of the above
- If the Phillips Curve is vertical in the long run, then an increase in the money supply from year to year will not change the unemployment rate and will \_\_\_\_\_ inflation rate.  
a. decrease      b. no change      c. increase      d. stagnant
- The Keynesian aggregate supply curve assumes that prices and \_\_\_\_\_ are fixed until full employment is reached  
a. wages      b. interest      c. rent      d. profit
- Other things equal, a decrease in autonomous consumption shifts the \_\_\_\_\_ curve to the left.  
a. IS      b. LM      c. IS-LM      d. LN
- In the ISLM framework, an expansionary fiscal policy causes aggregate output to increase and the interest rate to \_\_\_\_\_.  
a. increase      b. decrease      c. stagnant      d. neutral
- The term \_\_\_\_\_ was coined by J .M .Keynes to refer to movements in investment that could not be explained by movements in current variables.  
a. inflation      b. demand      c. animal spirits      d. expectations
- The new classical macroeconomics is a school of economic thought that originated in the early \_\_\_\_\_.  
a. 1940s      b. 1950s      c. 1960s      d. 1970s
- The phenomenon of sticky wages usually leads to \_\_\_\_\_ unemployment during a recession.  
a. higher      b. lower      c. stabilized      d. neutral
- New Keynesian Economics refers to models of real business cycles with \_\_\_\_\_.  
a. sticky investment      b. sticky income  
c. sticky wages      d. sticky prices

**Part - B**

**5 x 6 = 30**

**Answer ALL questions**

**Each answer should not exceed 400 words or two pages**

11.a. Explain the classical theory of employment.

(or)

11.b. Write a note on wage price flexibility.

12.a. What are the Keynesian's assumptions of the labour market?

(or)

12.b. Explain Keynesian's view on inflation.

13.a. Explain the neo classical view on interest.

(or)

13.b. Bring out the relationship between the rate of interest and the optimum propensity to consume.

14.a. Explain the principles of new classical macro economics.

(or)

14.b. Explain briefly the policy implications of new classical macro-economics.

15.a. Bring out the difference between new classical and new Keynesian macroeconomics.

(or)

15.b. What are the features of new Keynesian economics?

**Part C**

**5 x 12 = 60**

**Answer ALL questions**

**Each answer should not exceed 800 words or four pages**

16.a. Explain in detail Keynes' criticism against the classical theory.

(or)

16.b. Examine the factors affecting aggregate supply and aggregate demand.

17.a. Describe the long run Philips curve.

(or)

17.b. Critically examine **Keynes' money wage rigidity model of involuntary unemployment.**

18.a. Describe the derivation of Aggregate Demand Curve from IS-LM Model.

(or)

18.b. Explain the relative effectiveness of IS-LM model on monetary and fiscal policies.

19.a. Explain LUCAS aggregate supply function.

(or)

19.b. Explain the theory of rational expectations.

20.a. Critically examine the sticky nominal prices.

(or)

20.b. Discuss briefly the reasons for sticky real wages and its policy implications.

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