



Avinashilingam Institute for Home Science and Higher Education for Women

Deemed to be University Estd. u/s 3 of UGC Act 1956, Category A by MHRD (now MoE)

Re-accredited with A++ Grade by NAAC. CGPA 3.65/4, Category I by UGC

Coimbatore - 641 043, Tamil Nadu, India

Master's Degree Examination – May 2025

II Semester

Class : I P.G.
Major : Economics

Time: 3 Hours
Max. Marks: 100

23MECC08 Macro Economic Theory-II

Course 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

10 x 1 = 10

Choose the Correct Answer

- According to the classical theory, the economy operates at:
a. Full employment b. Underemployment c. Overproduction d. None of the above CO1K1
- Keynesian theory criticizes classical macroeconomics for assuming:
a. Flexible wages and prices b. Government intervention
c. Unstable markets d. Sticky wages CO1K2
- The IS curve represents equilibrium in the:
a. Goods market b. Labour market c. Money market d. Foreign exchange market CO3K1
- The LM curve slopes upwards because:
a. Demand for money is inversely related to interest rates
b. Higher income leads to higher demand for money
c. The money supply is fixed
d. None of the above CO3K2
- The Phillips Curve shows the relationship between:
a. Inflation and employment b. Inflation and money supply
c. Inflation and interest rate d. Inflation and exchange rate CO2K1
- Rational expectations suggest that economic agents:
a. React randomly to policy changes b. Use past data only to form expectations
c. Anticipate policy changes and adjust accordingly
d. Depend only on the government's policies CO4K3
- Sticky wages are an essential feature of:
a. New Keynesian theory b. Classical theory
c. Monetarist theory d. Rational expectation theory CO5K1
- In the IS-LM framework, fiscal policy is more effective when:
a. The LM curve is steep b. The IS curve is steep
c. The LM curve is flat d. The IS curve is horizontal CO3K4
- The policy ineffectiveness proposition suggests that:
a. Monetary policy has no long-run effect
b. Fiscal policy is more effective than monetary policy
c. Only supply-side policies work
d. Both fiscal and monetary policies are ineffective CO4K5
- New Classical economists emphasize:
a. Market failures b. Government intervention
c. Rational expectations d. Price rigidity CO4K2

Part B

5 x 6 = 30

Answer ALL questions

Each answer should not exceed 400 words or two pages

- 11.a. Explain the assumptions of the classical macroeconomic theory. CO1K2
- (or)
- 11.b. Explain the concept of wage price flexibility. CO1K3
- 12.a. Write a note on Keynesian's contractual view of the labour market. CO2K3
- (or)
- 12.b. Explain Keynesian's view on aggregate demand.. CO2K4
- 13.a. What is the general equilibrium approach to interest rate determination? CO3K4
- (or)
- 13.b. Extend the IS-LM model by incorporating the government sector. CO3K5
- 14.a. Evaluate the policy ineffectiveness proposition of the New Classical model. CO4K5
- (or)
- 14.b. Explain the Lucas Aggregate Supply function and its implications. CO4K2
- 15.a. Bring out the differences between new classical and new Keynesian macro economics. CO5K5
- (or)
- 15.b. Explain the role of coordination failures in New Keynesian economics. CO5K5

Part C

5 x 12 = 60

Answer ALL questions

Each answer should not exceed 800 words or four pages

- 16.a. Compare and contrast the Classical and Keynesian theories of employment and output. CO1K4
- (or)
- 16.b. Explain the aggregate supply and aggregate demand framework in classical macroeconomic theory. CO1K5
- 17.a. Analyze the role of policy implications of the Phillips Curve. CO2K4
- (or)
- 17.b. Critically evaluate the impact of wage and price rigidity on macroeconomic stability. CO2K5
- 18.a. Construct an IS-LM model by incorporating fiscal and monetary policies and explain their effects. CO3K6
- (or)
- 18.b. Examine new classical and Keynesian views on interest. CO3K6
- 19.a. Examine the macroeconomic implications of rational expectations theory. CO4K5
- (or)
- 19.b. Assess the strengths and weaknesses of the New Classical approach to macroeconomic model. CO4K5
- 20.a. Discuss the major features of new Keynesian model. CO5K6
- (or)
- 20.b. Formulate a policy framework for addressing macroeconomic instability using New Keynesian principles. CO5K6
