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4 SEM TDC ECOH (CBCS) C 9

2024

(May/June)

ECONOMICS

(Core)

Paper : C–9

(Advanced Macroeconomics)

Full Marks : 80

Pass Marks : 32

Time : 3 hours

The figures in the margin indicate full marks for the questions

1. Answer the following as directed : 1×8=8

(a) If the slope of the consumption function is equal to 1, then the multiplier will be

(i) zero

(ii) 1

(iii) infinite

(iv) None of the above

(Choose the correct option)

(b) When is investment said to be optimal?

(c) Which of the following is not true about Harrod-Domar growth model?

(i) Labour and capital are always used in fixed proportions

(ii) Labour and capital are perfect substitutes

(iii) Capital-output and labour-output ratios are constant

(iv) Labour force grows at a proportionate rate

(Choose the correct option)

(d) According to the Solow growth model, a rise in the capital-labour ratio, leads to a fall in output-capital ratio.

(Write True or False)

(e) Mention one objective of monetary policy.

(f) Monetary policy is most effective when

(i) IS curve is horizontal

(ii) investment is perfectly interest elastic

(iii) Both (i) and (ii)

(iv) demand for money is perfectly interest elastic

(Choose the correct option)

(g) If fiscal expansion is accommodated by monetary expansion, which of the following must occur?

(i) Output increases

(ii) Interest rate increases

(iii) Both output and interest rate increase

(iv) Interest rate declines

(Choose the correct option)

(h) Mention one criticism about Keynesian economics.

2. Write short notes on any *four* of the following (**within 150 words** each) : 4×4=16

(a) The consumption puzzle

(b) The golden rule level of capital

(c) Technological progress and economic growth

(d) Targets of monetary policy

(e) Full wage-price flexibility and its implications

3. (a) Why does the ratio of consumption to accumulated saving decline over time until retirement? What happens to this ratio after retirement? Explain in the light of the life-cycle hypothesis. Does the permanent income hypothesis offer similar conclusion? 5+3+3=11

Or

(b) What are the determinants of business fixed investment? Suppose an invention renders much of existing production techniques in a sector of the economy obsolete. What would happen to the stock prices of firms and to investment in the sector? What does this tell you about 'q' theory? 5+3+3=11

4. (a) Why is the Harrod-Domar growth model said to be unstable? What assumptions make the model unstable? What additional assumption can you make so that the model becomes stable? Explain. 5+4+3=12

Or

(b) Explain what is meant by a steady state? According to the Solow model, how would the steady state be affected if *(i)* there is a destruction of a portion of the nation's capital stock in a war, and *(ii)* there is a permanent increase in the rate of immigration? Explain. 2+5+5=12

5. (a) Describe the various policies available to a government to promote economic growth. How does a temporary rise in saving rate affect the steady state position in the Solow growth model? 8+3=11

Or

(b) Explain what is meant by endogenous growth theory. How does the production function in an endogenous growth model different from the production function in the Solow model? 5+7=11

6. (a) Describe the various lags that arise in the pre- and post-implementation period of a macroeconomic policy. Why is the lag of monetary policy usually shorter than that of fiscal policy? 8+3=11

Or

(b) In terms of the Ricardian equivalence, explain how tax cuts or increase in transfer payments affect national saving. What are the criticisms against the Ricardian equivalence? 7+4=11

7. (a) How do the Keynesians oppose the notion of full wage-price flexibility? Explain the monetarist counter evolution against the Keynesians. 6+5=11

Or

(b) Explain the implications of the rational expectations assumption for the effectiveness of economic stabilization policy. How do the views of the neo-classical economists compare to those of the monetarists concerning the effectiveness of aggregate demand management policies? 7+4=11

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