LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

M.A.DEGREE EXAMINATION – **ECONOMICS**

SECONDSEMESTER – APRIL 2018

17/16PEC2MC02/EC2809- MACROECONOMIC THEORY - II

Date: 19-04-2018 Dept. No. Max. : 100 Marks
Time: 01:00-04:00

PART A (5 X 4 = 20 marks)

Answer any FIVE questions in 75 words each. Each question carries FOUR marks.

1. What is a sunspot equilibrium?
2. Explain the concept of perfect foresight.
3. How does the infinite horizons model differ from the overlapping generations model?
4. State the assumptions of the Research and Development model.
5. Differentiate between Samuelson's and Hicks's theory of the business cycle.
6. Define constant returns to scale production function using a suitable example.
7. Highlight the major conclusions of the Ramsey-Cass-Koopman's model.

PART B (4 X 10 = 40 marks)

Answer any FOUR questions in 300 words each. Each question carries TEN marks.

8. Derive the central conclusions of the Diamond model.
9. In the Solow growth model, assume positive population growth ($n \geq 0$) and absence of technological progress ($g=0$, $A=1$). Assume that $Y = \sqrt{K}\sqrt{L}$, $s = 0.4$, $\delta = 0.07$, $n = 0.03$, where Y, K and L are output, capital and labour respectively, s is the savings rate and δ is the depreciation rate. What are the steady-state levels of capital, output and consumption per worker? Is consumption per worker maximized in the steady state? What is the savings rate s* that maximizes consumption in the steady state?
10. Explain the simple version of the Goodwin model of the trade cycle.
11. Discuss the relationship between seignorage and inflation.
12. Mathematically derive a model of human capital and growth.
13. How does Pierre Perron prove that both aggregate demand and aggregate supply shocks contribute to business cycle fluctuations?
14. Briefly describe a coordination-failure model.

PART C (2 X 20 = 40 marks)

Answer any TWO questions in 1200 words each. Each question carries TWENTY marks.

15. Explain how Lucas uses the aggregate supply curve to prove that local prices are dependent upon local demand shocks as well as the general level of prices in the economy.
16. Derive mathematically a baseline model of real business cycle theory.
17. Explain how Kaldor's model of the trade cycle discusses the possibility of multiple points of equilibrium.
18. Demonstrate with the help of the perfect-foresight and rational expectations models that anticipated changes in monetary policy will have no real effects.

$$$$$$$$