LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

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

FIRST SEMESTER – **NOVEMBER 2014**

EC 1807 - MACRO ECONOMIC THEORY - I

Date : 03/11/2014   Dept. No.   Max. : 100 Marks
Time : 01:00-04:00

Part – A

Answer any Five questions in about <u>75</u> words each: **(5 x 4 = 20 Marks)**

1. List out the importance of the New Classical Theory of macroeconomics.
2. What is 'Ratchet Effect'? Describe with an example.
3. Suppose the supply price of a capital asset having an age of two years is Rs. 6000 and the expected returns at the end of the first and second years are Rs. 2500 and Rs. 6250 respectively, find the MEC.
4. What is 'q'? State the importance of the same.
5. Differentiate 'distribution effect' and Spillover effect'.
6. What is inflation? List out various models of demand and supply side of theory of inflation.
7. Diagrammatically represent the concept of Relative income hypothesis.

Part – B

Answer any Four questions in about <u>300</u> words each   **(4 x 10 = 40 Marks)**

8. Briefly discuss the policy implications of New Classical theory of macroeconomics.
9. What is Permanent Income Hypothesis (PIH)? What are the features of the PIH? From the given data find permanent income of the current year (2014):

Year	Income	β
2013	75000	
2014	125000	0.33

10. What are the differences between Jorgenson's Neo-Classical Theory and Keynesian Theory of Investment?
11. Suppose MPC (b) and investment (a) out of after tax income is assumed to be as 0.80 and 0.20 respectively. The marginal propensity to pay tax (t) and government's propensity to spend on goods and services (g) are 0.25 and 0.30 respectively. If the maximum possible output is Rs. 1500 crore valued at the pre-inflationary prices. Find the Inflationary Gap.
12. Discuss various merits and demerits of Macro-Disequilibrium model.
13. Discuss Keynesian Psychological law of Consumption in terms of his absolute income hypothesis.
14. Discuss the combination of Demand pull and Cost Push inflation with suitable diagram.

Part – C

Answer any two questions in about <u>900</u> words each: **(20 x 2 = 40 Marks)**

15. Write a note on the positive and negative comments on the Classical theory of Macroeconomics with justification.

16. What is life cycle hypothesis? List out various propositions of LCH. Suppose life expectancy of an individual is 75 years, he retires from his job at the age of 58 years with 30 years experience. The average annual income of the individual is estimated as Rs. 250000. Find the following:
    i)   Life Time Income
    ii)   Life Time Consumption
    iii)   Consumption During Working Life
    iv)   Annual Consumption
    v)   Life Time Savings

    Represent the model also with suitable diagram.

17. Discuss various endogenous and exigencies factors affecting the theory of Investment function.

18. Discuss various model of supply side theory of inflation with suitable example.

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