

M.A./M.Sc. 1st Semester Examination, 2019

ECONOMICS

(Advanced Macro Economics)

PAPER —ECO-102(Gr. A + B)

Full Marks : 40

Time : 2 hours

The figures in the right-hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

Illustrate the answers wherever necessary

Write the answers to Questions of each Groups in separate books

GROUP — A

[Marks : 20]

1. Answer any two questions : 2 × 2

(a) For what purpose are households in the

Barro-Grossman model expected to hold a money balance ?

- (b) What can you infer about the role of supply factors in a vertical aggregate supply curve ?
- (c) Even if money wage rate and general price level being perfectly flexible can you get a positively sloped aggregate supply function ?
- (d) Define neutrality of money.

2. Answer any *two* questions : 4 × 2

- (a) Point out the conditions responsible for underemployment equilibrium under Keynesian system. Which one do you think as the sufficient cause of underemployment equilibrium ? Justify.
- (b) What is production shock ? Discuss how the theoreticians of the RBC model explained the roles of such shocks in justifying the fluctuations of the economy.

- (c) Distinguish Adaptive Expectations from Rational Expectations. Intuitively explain which form of the 'expectation' is associated to effectiveness of fiscal and monetary policies.
- (d) Distinguish between the national and the effective labour supply curves in the Barro-Grossman model.

3. Answer any *one* question :

8 × 1

- (a) Discuss how rational expectations by all the economic agents lead to policy ineffectiveness results into the economy.
- (b) What is 'menu cost' ? Explain how the sticky-wage-price assumptions under New Keynesian set up lead to the justification of the economic fluctuations and policy effective results.

GROUP – B

[Marks : 20]

4. Answer any *two* questions: 2 × 2

(a) Differentiate between neo-Keynesians and Neo-classicals.

(b) What was "Lucas critique" ?

(c) What is Seignorage ?

(d) What is the implication of long run Phillips Curve for macroeconomic policy ?

5. Answer any *two* questions : 4 × 2

(a) Prove that under rational expectation hypothesis there is no trade-off between inflation and unemployment.

(b) What do you mean by time inconsistency of optimal policy ?

(c) Estimate the optimal growth of money in the Cagan model of hyperinflation.

(d) Derive the Expectation Augmented Phillips Curve and interpret.

6. Answer any *one* question : 8 × 1

- (a) Explain the trade-off between inflation and unemployment under Adaptive Expectation Hypothesis in short run and long run.
- (b) State and interpret Hall's random walk hypothesis model.
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