**Macro Economics**

**Punjab University**

**M.A./M.Sc Annual Examinations**

**2006**

***Time Allowed: 3 hours                                    Maximum Marks: 100***

*Attempt any four questions.  All questions carry equal marks*

1. Explain different methods for measuring Gross Domestic Product (GDP).

2. (a) Explain through flexible acceleration how firms plan to adjust ilir capital stock over time?

(b) Also explain Tobin’s Q theory of investment.

3. (a) Define budget deficit and debt. Are they related to each other?

(b) Is deficit inflationary?

(c) Do deficits burden future generations?

4. Compare the effectiveness of monetary policy in classical and Keynesian models.

5. (a) What are the causes of inflation?

(b) Inflation, growth and unemployment are related through the Business Cycle. Discuss.

6. What are the contributions of Irving Fischers and Cambridge school in quantity theory of Money’? What are the major differences between them? What alternative do you suggest?

7. Write short notes on the following:

(i) High Powered Money.

(ii) Failure of “Say’s” Law in Monetary economy

(iii) The workers misperception Model.

**2007**

1. a) Define nominal GDP and real GDP and GDP deflator’

(b) Was Unemployment possible in classical system? Why or why not.

(c) Discuss under full-employment in Keynesian system.

2. (a) Discuss IS-LM Model in an Open Economy.

(b) What are the determinants of Real Exchange rate?

(c) Describe, how policies influence the Real Exchange Rate.

3. (a) Why wages are Rigid Downward?

(b) Why does LM Curve slope upward and IS Slope Downward.

(c) Describe important instrument of Monetary Policy.

4. (a) List Five reasons a firm might hold inventories.

(b) What is Tobins Q? What relations it has with Investment.

(c) How can Fiscal Policy shift investment demand curve? Explain.

5. (a) Do you think Phillips curve and aggregate supply curve are the same? Discuss.

(b) Explain the difference between Demand-pull and Cost-push Inflations.

(c) How inflation tax is related with debt.

6. (a) Explain Real Business Cycle Theory.

(b) How technological change and household behavior can affect fluctuations in output.

(c) Why should we stabilize the economy.

7. Write short notes on the following:

(a) Neo classical production function

(b) Rational Expectation and Adaptive Expectation

(c) Richardian equivalence.

(d) Lucas critique.

**2008**

1. Suppose an economy is described by the following model:

Consumption Function C = 150 + 0.75 Yd

Investment spending I = 100

Govt. spending G = 115.

Tax T = 20 + 0.2Y

Transfer Payments R = 40

Exports X = 35

Imports M = 15 + 0.1Y

Where Y and Yd are income and disposable Income respectively. All figures are in rupees.

(a) The equilibrium level of consumption and income in a closed and open economy and explain the difference.

(b) Find out Balance of Trade (BOT) at equilibrium income.

(c) Find out the value of Foreign Trade Multiplier.

(d) Find out the Increase in Government spending required to increase the level of Income to 1200 in an open economy.

2. a. Derive aggregate demand curve though IS, LM Framework, Why is it negatively sloped?

b. Do you think that Phillips Curve and Aggregate Supply Curve are the same?

3. Write a comprehensive note on “Endogenous Growth Theory.”

4. a. Explain how Friedman resolves the contradiction between the short Run and Long Run Consumption Function.

b. Briefly explain Tobin’s Q Theory.

5. a. Describe four problems affecting measurement of Govt. Budget Deficit.

b. How does a “Debt Financed Tax Cut” affect the private, public and National Savings under both Traditional view and Ricardian view of Govt. Debt?

6. Critically evaluate Random Walk model of GDP and consumption.

7. Write short note on any three of the following:

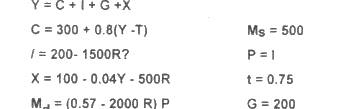
a. Model of Debt Crises.

6. Mundell — Fleming Model and Large Open Economy.

c. Imperfect — Information Model.

**2009**

l. An open economy model is given as follows:



a) Derive the equations of IS and LM curves.

b) Find the equilibrium values of Y and R mathematically.

c) Find the open economy export multiplier.

d) Derive the aggregate demand curve for the above system of equations.

2. a) What is a Phillips curve? Is there an inverse relationship between the rate of unemployment and the rate of inflation in the long run?

b) Explain Worker’s Misperception Model in detail.

3. a) Explain the Real Business Cycle Theory?

b) Critically evaluate the effect of technological change and Household behavior on fluctuations in output.

4. a) What is Mundell-Fleming model?

b) Explain the role of monetary and fiscal policy with a flexible exchange rate in a large open economy.

5. a) Explain why the aggregate demand curve slopes downwards.

b) Derive Aggregate Demand curve using IS - LM framework.

c) How it can change its position and slope?

6. Compare life cycle and permanent Income hypothesis of consumption in terms of mathematical formulation and short run and long run behavior of consumption.

7. Write notes on the following

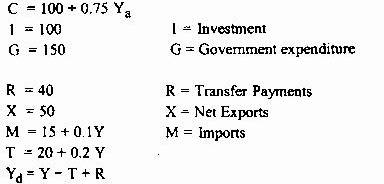
a) Thrift Paradox

b) Time-Inconsistency of Monetary Policy.

c) Lucas critique.

**2010**

1. Suppose an economy is described by the following set of equations:



a) Find the equilibrium level of National Income and consumption.

b) Find Budget Surplus and balance of trade.

c) Find the value of trade multiplier.

d) How much change in G is required to take income to 1200.

2. a) Derive mathematically or diagrammatically the aggregate demand curve from IS - LM framework in a closed economy.

b) Discuss the impact of fiscal and monetary expansion through aggregate demand on output and prices.

3. a) How the Permanent Income hypothesis of consumption resolves the seemingly contradictory prices of evidence regarding the consumption behavior?

b) Critically evaluate the relative income hypothesis of consumption.

4. a) How does the real business cycle theory explain the role of external shocks in Producing Cyclical fluctuations?

b) What is neutrality of money thesis?

5. a) What is Okun’s law?  Is it possible for the GDP gap to be positive as well as negative? Explain.

b) How is Okun’s law incorporated into the expectations - augmented Philip’s curve?

6. a) How do monetary and fiscal policy differ in a situation of liquidity trap?

b) What are the two lags in the effect of monetary policy?

7. Write short notes on any three of the following:

(a) Crowding out hypothesis.

(b) Stock and flow variables,

(c) Rules versus discretion,

(d) Natural Rate of unemployment.