

**Macro Economics**  
**M.A (FINAL) EXTERNAL ANNUAL EXAMINATION**  
**University of Karachi**  
**MACRO ECONOMICS (PAPER - I)**  
**1997**

*Time allowed: Three Hours*

*Maximum Marks: 100*

*Instructions:*

- 1) Attempt any five questions.*
- 2) All questions carry equal marks.*
- 3) Draw the diagram wherever necessary*

1. In what respect Keynes criticized the Classical Theory of employment?
2. Explain the Permanent Income Hypothesis of Consumption.
3. Explain the Theory of Consumption function given by Keynes.
4. a) What is GNP? How can it be measured according to expenditure approach?  
b) Given the following Set of Information from National Income account of a hypothetical economy, find out GNP, NNP and NI.

<b>Description</b>	<b>In million Rs.</b>
Capital consumption allowance	1,800
Indirect tax	1,600
Gross investment	2,400
(Export-Import)	70
Consumption expenditure	10,800
Government expenditure	3,650

5. Explain the concept of Multiplier with suitable example. What is the relationship between Multiplier and MPS (Marginal Propensity to save)?
6. What is meant by Demand Pull and Cost Push Inflation? Explain.
7. Briefly discuss the main determinants of Investment Spending.

8. Critically examine Keldor's Model of Business Cycle.
9. Write short notes on any Two of the following
  - (i) IS-LM Curves
  - (ii) Phillips Curve
  - (iii) Balanced Budget Multiplier

## 1998

1. “In one context, saving and investment are necessarily equal while in another they are often unequal”. Explain this apparent contradiction?
2. State and explain the Liquidity Preference theory as stated by J.M Keynes?
3. a) State and explain in your own words why measuring gross domestic product (GDP) in real terms is important?  
b) Explain different methods for measuring gross product.
4. Discuss the classical theory of employment with its assumptions? What the shortcomings of the theory are as pointed out by J. M. Keynes?
5. State and explain the importance of Harrod-Domar Model in the economic growth?
6. Define LM curve and show how it is derived? Explain in which direction and why LM curve shifts when there is:
  - a) An increase in Money Supply
  - b) A decrease in Money Supply.
7. State and explain Say’s Law? What are its limitations? Does it apply to barter economy only? Give reasons?
8. Explain Hicks Theory of business cycle with given emphasis on the role of Multiplier and principle of acceleration. Why does accelerator become ineffective in the down swing?
9. Briefly explain “Monetarist” contribution to Macro Economics.
10. Write short notes on any two of the following:
  - a) Marginal efficiency of Capital
  - b) Keynesian theory of interest
  - c) Induced investment.

## 1999

1. a) State and explain Say's Law of the market. What obstacles are met if we introduce (i) Money (ii) Savings, In barter economy for which Say's Law hold?  
b) The classical theory has used the Quantity Theory of Money for various purposes. Explain each purpose with its underlying assumptions.
2. Compare the effects of an increase in money supply in the classical and Keynesian models.
3. How did Keynes attack the classical doctrine? Explain his criticism on major classical theories.
4. In a simple IS-LM model are there circumstances when fiscal policy is totally ineffective in raising GNP? Explain.
5. How do firms make decision regarding purchases capital goods overtime? Explain using the theory of marginal efficiency of Capital.
6. Define and derive LM-Curve. Explain the position of the LM-Curve. When and how will LM-Curve shift?
7. Compare the Absolute Income and Permanent Income theories of consumption..
8. a) What are the fundamental sources of Economics growth? Explain with respect in the Harrod-Domar and Neo-Classical Growth Models  
b) Explain the "Razor Edge" problem and its essence. Why doesn't this problem replicate itself in the Neo-Classical Model?
9. If consumption is determined by the level of income, while investment is determined by the change in income form the previous period, how will you explain fluctuation in GNP?
10. Write notes on any two of the following:
  - a) Expenditure approach to measuring GNP
  - b) Classical theory of Aggregate Supply
  - c) Types of Equilibrium Analysis

## 2000

1. What are the expenditure components of GDP? What are income components?
2. What would effects of Credit card on output level, employment level and price level in the classical model?
3. What are the contributions of Irving Fishers and Cambridge School in Quantity Theory of Money? What are the major differences between them? Why quantity theory of money is partially true? What alternate do you suggest?
4. What do you understand by inflation? What are the economic and social consequences of inflation?
5. Show how the slopes of the IS and LM curves determine the effectiveness of fiscal policy?
6. What is Harrods growth model? What is Domar growth model? Why economists plugged these two growth models in one model? i.e. Harrod-Domar growth model.
7. What are two main components of business cycle? Describe these two components for the real business cycle theory?
8. What does the rational expectations hypothesis imply about the ability of government to reduce inflation without causing unemployment?
9. Explain the permanent income theory of consumer behavior. Compare the permanent income hypotheses with the life cycle theory

## 2001

1. In what respect the Keynes criticized the Classical Theory of employment?
2. Explain the concept of Multiplier with suitable example. What is the relationship between Multiplier and MPC (Marginal Propensity to Consume)?
3. State and explain the Liquidity Preference Theory.
4. Explain different methods for measuring Gross Domestic Product.
5. State and explain Say's Law. Does it apply to barter economy only? Why?
6. Discuss the Harrod-Domar growth model with reference to the economic growth.
7. In one context, Saving and Investment are necessary equal while in another they are often unequal. Explain.
8. Critically examine Kaldor's model of business cycle.
9. Write short notes on any two of the following:
  - (a) Philips Curve
  - (b) Balanced Budget Multiplier
  - (c) Marginal Propensity to Save