

ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE- 27
MID-SEMESTER TEST - AUGUST 2016
MA ECONOMICS - SEMESTER I
EC 7316 MACROECONOMICS

Time 1^{1/2} hours

Max Marks 35

The question paper has ONE printed page and THREE sections

I. ANSWER ANY FIVE OF THE FOLLOWING

2 X 5 = 10

1. Differentiate between planned investment and realized investment.
2. What is crowding out effect?
3. What is quantity theory of money? Explain the differences between the Fisherian and Cambridge versions of the quantity theory of money.
4. Explain the concept of 'classical dichotomy'.
5. Discuss the possible impact of an increase in marginal propensity to consume on IS curve.
6. Give the meaning of the term 'liquidity trap'.

II. ANSWER ANY ONE OF THE FOLLOWING

10 X 1 = 10

7. State the assumptions and explain the simple Keynesian model of income determination. What causes stability in this model?
8. Using classical theory, explain the effects of an increase in government spending.

III. ANSWER ANY ONE OF THE FOLLOWING

15 X 1 = 15

9. Explain using IS-LM model why an increase in government expenditure causes larger changes in income in the Keynesian model with fixed price, fixed wage and fixed interest rate than in the model with fixed price, fixed wage and variable interest rate. What would happen to equilibrium income if price varies?
10. Discuss the effectiveness of fiscal and monetary policy in each one of the cases using IS-LM curve.
 - a. in presence of liquidity trap
 - b. when investment is interest rate inelastic
 - c. when money demand is interest rate inelastic