

**UNIVERSITY OF PETROLEUM
AND ENERGY STUDIES**



End Semester Examination, May 2017

Program/course: MA(EE)
Subject: Macroeconomics
Code :MECE702
No. of page/s: 4

Semester – II
Max. Marks : 100
Duration : 3 Hrs

Section-A

All the questions are compulsory in this section. [10*2=20]

1. Assume you bought a new car, bought an old house and purchased some national saving certificates (NSCs). Which of the following statement is true?
 - (a) Investment and government consumption expenditure increased since you bought a used house and NSCs.
 - (b) Consumption and investment increased since you bought a used house and NSCs.
 - (c) Investment increased since you bought a new car.
 - (d) Consumption increased since you bought a new car.
2. Price Indices are imperfect measure of inflation because they
 - (a) Ignore new products.
 - (b) Quality improvements.
 - (c) Use sample data.
 - (d) All of the above.
3. A model is complete when the number of independent equations equals the number of
 - (a) Endogeneous variables.
 - (b) Pre-determined variable.
 - (c) Exogeneous variables.
 - (d) Policy variables.
4. The IS curve shifts to the right if
 - (a) Money supply increases.
 - (b) Proportional tax rate falls.
 - (c) Transfer payments decrease.

- (d) Investors become pessimistic.
5. The LM curve is flatter the larger is the
- (a) Government Expenditure.
- (b) Money Supply.
- (c) Interest sensitiveness of money demand.
- (d) Price level.
6. The retail inflation is a better measure of the cost of living than the wholesale inflation.
True/False
7. The fiscal policy is more powerful in an open economy than in a closed economy.
True/False
8. Demand for money varies directly with _____ and inversely with _____.
9. The trade deficit is bad if it happens due to _____ and is not likely to be bad if it happens due to _____.
10. Under the situation of liquidity trap, the monetary policy is _____ and the fiscal policy is _____ with respect to real GDP.

Section-B
Attempt all the questions.

[4*5=20]

11. If output increases, so will investment; if investment increases, so will output. Explain.
12. The supply of money is a monetary policy instruments. Examine the validity of this investment.
13. While the long-run aggregate supply curve is vertical at the potential level of output, the short-run aggregate supply curve is upward sloping with the increasing slope. Why?
14. An inflationary process may begin on the supply side but it will not continue for long unless there is increase in demand. Discuss.

Section-C
Answer all the questions.

[3*10=30]

15. According to the life cycle hypothesis, while the young tend to borrow, working people save and retirees live off their savings. If so, what impact will the changing age structure

towards older people of the Indian population have on aggregate saving rate in the country? What will the impact be of the increase in the retirement age?

16. The major macro aggregates for an economy are given as follows:

Consumption (C) = $60 + 0.8Y_d$, Investment (I) = $100 - 5i$,

Interest rate (%) = 6, Government expenditure (G) = 76

Lump-sum Tax (T) = 15, Transfer Payments (TR) = 60

Exports (X) = 70, Imports (M) = $12 + 0.2Y$

(a) Derive the IS curve using the above data.

(b) Calculate equilibrium level of income.

(c) Calculate foreign trade multiplier.

17. What policy instruments are available with the government to achieve full employment, price stability and economic growth? Explain them briefly.

Section-D

[2*15=30]

Attempt any two questions.

18. Explain the relationship between money supply and price level as explained by Keynes.

Explain how he proved that there is no direct and proportionate increase in general price level as a result of increase in money supply.

19. Analyse the impact of monetary and fiscal policy under fixed exchange rate regime considering Mundell-Fleming model.

20. What are rational expectations? How is monetary policy neutral in the rational expectations hypothesis?