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SARDAR PATEL UNIVERSITY
SEMSTER END EXAMINATION MARCH/APRIL - 2016
B.A. (ADVANCED ENGLISH MEDIUM)
F.Y BA, II - Semester (UNDER CBCS) (Reg. & NC)

UA02EEEC02 Macro Economic Theory II

Day and Date: Wednesday, 6th April 2016
 Time: 10.30 am to 12.30 pm

Total Marks: 60

Note : All the questions are compulsory,
 Figures to the right indicate marks,
 Draw diagrams and cite examples wherever necessary.

Q1. Attempt the following -

(15)

1. The liquidity trap occurs when the demand for money:

- A) is perfectly interest elastic
- B) is perfectly interest inelastic
- C) Means that an increase in money supply leads to a fall in the interest rate
- D) Means that an increase in the money supply leads to an increase in the interest rate

2. Which of these policy measures will make the IS-curve steeper and shift it to the left?

- A) A decrease in money supply
- B) a decrease in government transfer payments
- C) an increase in lump sum taxes
- D) an increase in the income tax rate

3. The goods market and the money market are linked together by

- A) Monetary policy
- B) fiscal policy
- C) interest rates
- D) the labor market

4. Demand for money for precautionary motive is _____

- A. For making speculative purchases.
- B) For handling emergencies in the future.
- C) To make anticipated expenditures.
- D) For fulfilling day to day needs.

5. Any position that is to the left of (and above) the LM-curve indicates that there is

- A) Excess demand for goods and services
- B) excess supply of goods and services
- C) Excess demand for money
- D) excess supply of money

6. A decrease in the interest rate will increase the level of investment spending since

- A) The cost of borrowing will decrease
- B) the value of government bonds will decrease
- C) The return on private saving will decrease
- D) all of the above

7. Which one of the following is the most important determinant of speculative demand for money?

- A) Income
- B) Interest rate
- C) Profits
- D) Prices

A) Deflation B) inflation C) elevation D) none of the above

A) An idle balance
B) An active balance
C) Directly related to interest rates
D) Inversely related to income

A) Reduce the interest rate
B) Increase the interest rate
C) Increase inflation
D) Decrease deflation

A) Trough B) boom C) Expansion D) peak

A) The balance of trade
B) The rate of growth in an economy
C) The rate of price increases
D) Unemployment

A) a contraction B) an expansion C) a trough D) a turning point

A) Nominal wages are equal to expected wages
B) Real wages are back at long-run equilibrium level
C) Nominal wages are growing faster than inflation
D) Inflation is higher than the growth of nominal wage

A) An expansion B) a contraction C) a peak D) a turning point

OR

Q3. Discuss Liquidity Preference theory of interest. (15)

OR

Q4. Attempt **ANY TWO** (15)

- Classical theory of Interest.
- Aggregate Demand
- Philips curve
- Consequences of inflation.

$$X = X \cap X$$