

1. (i) Rise in market power of firms through mergers and acquisitions will lead to

(a) Rise in unemployment rate and fall in real wages

(b) Fall in unemployment rate and fall in real wages

(c) Rise in unemployment rate and no change in real wages

(d) Rise in unemployment rate and rise in real wages

(ii) Under the Permanent Income Hypothesis, how does the ratio of consumption to income ( $C/Y$ ) during an economic boom compare to the ratio of permanent consumption to permanent income

(a)  $C/Y$  is Higher

(b)  $C/Y$  is Lower

(c) Both are Equal

(d) They are Incomparable

(iii) Given a 15% markup by firms over costs and a wage-setting equation  $W=P(1-2u)$ , where  $u$  represents the unemployment rate. What is the natural rate of unemployment?

(a) 0.045

(b) 0.052

(c) 0.065

(d) 0.055

(iv) According to the Phillips Curve (assuming  $\alpha=1$ ), if the natural rate of unemployment is 5% and the expected inflation rate is 3% an actual unemployment rate of 4% would be associated with an inflation rate of

(a) 3%

(b) 4%

(c) 5%

(d) 6%

(v) The proposition that in the medium run, changes in inflation are reflected one for one in changes in nominal interest rate is known as

(a) Consumption puzzle

(b) Policy ineffectiveness proposition

(c) Fischer effect

(d) Lucas critique

(vi) In the AD-AS model, if the investment is more responsive to changes in interest rate, then the short-run impact of expansionary monetary policy is

- (a) greater for prices but lower for output
  - (b) greater for output but lower for prices
  - (c) lower for prices and output
  - (d) greater for prices and output
- (vii) According to the Rational Expectations hypothesis, if the government announces a policy to reduce inflation, individuals will:
- (a) Ignore the announcement and continue with current expectations
  - (b) Adjust their expectations immediately based on the new policy
  - (c) Wait until inflation actually decreases to change their expectations
  - (d) Increase their spending in anticipation of higher prices
- (viii) In the Fischer intertemporal model, what happens when the real interest rate falls
- (a) The indifference curve becomes steeper
  - (b) The budget line becomes flatter

(c) The indifference curve becomes flatter

(d) The budget line becomes steeper

(ix) In the Modified Phillips Curve, an increase in unemployment above the natural rate will likely cause

(a) A rise in inflation

(b) No change in inflation

(c) A decrease in inflation

(d) A rise in expected inflation

(x) Which among the following is not an assumption of the Permanent Income Hypothesis

(a) Covariance between transitory consumption and permanent consumption is zero

(b) Covariance between transitory consumption and transitory income is positive

(c) Covariance between permanent income and transitory income is zero

(d) Covariance between permanent consumption and permanent income is positive



- (xi) The Life Cycle Hypothesis implies that, in aggregate, an ageing population might lead to
- (a) An increase in the national savings rate
  - (b) A decrease in the national savings rate
  - (c) No change in the national savings rate
  - (d) An increase in consumption by the young
- (xii) Which of the following can help reduce the short-term cost of disinflation
- (a) Flexible wage and price-setting mechanisms
  - (b) High inflationary expectations
  - (c) Increased government spending
  - (d) A surprise increase in inflation
- (xiii) Under what conditions are financial markets considered efficient?
- (a) When it is impossible to make an economic profit from trading

- (b) When it is possible to make an economic profit from trading
  - (c) When the prices of financial instruments do not reflect all available information
  - (d) When there is a moral hazard issue
- (xiv) Which of the following is not considered when calculating the desired capital stock?
- (a) Average productivity of capital
  - (b) Interest rate
  - (c) Rate of depreciation
  - (d) Capital gain
- (xv) If Tobin's  $q$  is greater than 1, what does the stock market indicate the firm should do?
- (a) The firm should invest in more capital
  - (b) The firm should disinvest
  - (c) The firm should not invest
  - (d) None of the above

2. Assume the economy is operating at its natural level of output. Analyse the impact of an increase in unemployment benefits on the positions of the aggregate demand (AD) and aggregate supply (AS) curves in both the short and medium run. Additionally, discuss the effects on output in the short run and medium run.

मान लीजिए कि अर्थव्यवस्था अपने उत्पादन के प्राकृतिक स्तर पर काम कर रही है। लघु और मध्यम अवधि में समग्र मांग (AD) और समग्र आपूर्ति (AS) वक्रों की स्थिति पर बेरोजगारी लाभ में वृद्धि के प्रभाव का विश्लेषण कीजिए। इसके अतिरिक्त, लघु और मध्यम अवधि में उत्पादन पर प्रभावों पर चर्चा कीजिए।

3. One major criticism of the adaptive expectations hypothesis is that its forecasting errors can be systematic. How does the rational expectations approach address and resolve this issue?



4. Explain why disinflation results in a period of higher unemployment. What argument does Lucas make to suggest that the unemployment costs associated with disinflation can be substantially reduced?

समझाइए कि मुद्रास्फीति में वृद्धि के परिणामस्वरूप बेरोजगारी की अवधि क्यों होती है। लुकास यह सुझाव देने के लिए क्या तर्क देता है कि मुद्रास्फीति से जुड़ी बेरोजगारी लागत को काफी हद तक कम किया जा सकता है?

5. Using the intertemporal optimisation model of consumption, demonstrate how the trajectory of consumption over time is influenced by the relationship between the market rate of return and the individual's discount rate.

6. Explain the differences between the labour market model based on wage-setting and price-setting relations and the traditional labour supply-demand model.

मजदूरी-निर्धारण और मूल्य-निर्धारण संबंधों पर आधारित श्रम बाजार मॉडल और पारंपरिक श्रम आपूर्ति-मांग मॉडल के बीच अंतरों की व्याख्या कीजिए।

7. Applying the arbitrage argument to financial investment, show that the price of stock is the present discounted value of dividends the stock will pay.

वित्तीय निवेश पर मध्यस्थता तर्क लागू करते हुए, यह दर्शाएं कि स्टॉक की कीमत स्टॉक द्वारा भुगतान किए जाने वाले लाभांश का वर्तमान छूट मूल्य है।

8. Inventory investment is highly procyclical, rising sharply in booms and falling in recessions. Explain

9. The following equations describe an economy :

Okun's law:  $u_t - u_{t-1} = -0.3(g_{yt} - 3\%)$

Phillips Curve :  $\pi_t - \pi_{t-1} = -(u_t - 4\%)$

Aggregate Demand :  $g_{yt} = g_{mt} - \pi_t$

Where  $g_{mt}$  is the growth rate of money in period  $t$ ;  $g_{yt}$  is the growth rate of output in period  $t$ ;  $\pi_t$  is the inflation rate in period  $t$  and  $u_t$  is the unemployment rate in period  $t$

- (a) What is the sacrifice ratio and the natural rate of unemployment for the economy? (1)
- (b) If the unemployment rate is equal to the natural rate, and the inflation rate is 8%. What is the growth rate of output and the growth rate of money supply? (2)
- (c) Suppose that conditions are as in (b); when in year  $t$ , authorities use monetary policy to reduce the inflation rate to 4% and keep it there. Given this inflation rate and using the Phillips curve, what must happen to the unemployment rate in years  $t$ ,  $t+1$  &  $t+2$ . (2)

10. Assuming flexible prices and that the economy is in medium-run equilibrium, evaluate the effects of a decline in consumer confidence (resulting in reduced consumption at any given level of disposable income) on the positions of the AS, AD, IS, and LM curves in both the short run and the medium run. Additionally, explain the impact on output, interest rates, and the price level in the medium run.

11. Explain the policy ineffectiveness proposition by discussing the statement, "The behaviour of output is unaffected by any predictable countercyclical policy implemented by monetary authorities."

कथन पर चर्चा करके नीति अप्रभावीता प्रस्ताव की व्याख्या कीजिए,  
"उत्पादन का व्यवहार मौद्रिक अधिकारियों द्वारा कार्यान्वित किसी भी पूर्वानुमानित प्रतिचक्रीय नीति से अप्रभावित है।"

12. Using Friedman's Permanent Income Hypothesis, explain how this model of consumption behaviour accounts for findings from cross-sectional budget studies, which indicate that the marginal propensity to consume (MPC) is lower than the average propensity to consume (APC).



13. Given the Phillips Curve

$$\pi_t = \pi_t^e + 0.2 - 2u_t$$

Where  $\pi_t$  is the inflation rate in period  $t$ ;  $\pi_t^e$  is the expected inflation for period  $t$  and  $u_t$  is the unemployment rate in period  $t$

(a) Determine the natural rate of unemployment? (1)

(b) Assume that  $\pi_t^e = \alpha\pi_{t-1}$

If initially unemployment rate is at the natural rate of unemployment and  $\alpha = 0$ , the government decides in year  $t$  to reduce unemployment to 5% and keep it there permanently, calculate the inflation rate for year  $t$ ,  $t+1$ ,  $t+2$  and  $t+6$ . (2)

(c) Do you believe the answer given in (b)? Give reasons. (2)

(d) Now suppose in year  $t+7$ ,  $\alpha$  increases from 0 to 1, with the government still aiming to keep the unemployment rate of 5% indefinitely. What will be the inflation rate in years  $t+7$ ,  $t+8$  and  $t+9$ ? (3)

(e) Do you believe the answer given in part (d)? Give reasons. (2)