**Assignment**

Course Name : B A (Programme)

Paper Name : Principles of Macroeconomics -II

Semester : 4th

Q1 Write a short note on

A Explain inflationary and recessionary gap

B Automatic stabilizers

Q2 What is meant by AD shock? Explain the consequences of an expansionary demand shock upon the equilibrium level of gap in the economy in the short run

Q3 Write a short note

A Long run Phillips curve

B Stagflation

Q4. What is inflation? What are the causes of inflation in India? What is the role of monetary policy regarding inflation?

Q5 Derive IS-LM curve and explain the determination of equilibrium by ISLM curve

Q6 Discuss the effect of expansionary fiscal policy on the equilibrium income and rate of interest using IS-LM curve. Also, discuss the crowding out effect of expansionary fiscal policy?

**Test**

1. Establish the linkage between goods market and money market. Derive the AD curve.
2. When is equilibrium established in money market? Derive the LM curve. What does the slope indicate?
3. How can government help in removing the inflationary gap?
4. What is the impact on equilibrium level of output and interest rate in each of the following cases?
5. Government increases nominal money supply
6. Government increases its expenditure

**MCQ’S**

1. The Phillips Curve is a graphical depiction of the
2. positive relationship between inflation and output.
3. negative relationship between inflation and the CPI
4. negative relationship between inflation and unemployment.
5. negative relationship between unemployment and output

Answer: negative relationship between inflation and unemployment.

1. The long-run Phillips Curve is vertical which indicates
2. that in the long-run, there is no tradeoff between inflation and unemployment.
3. that in the long-run, there is no tradeoff between inflation and the price level.
4. that in the long-run, the economy returns to a 4 percent level of inflation
5. none of the above

Answer: that in the long-run, there is no tradeoff between inflation and unemployment.

1. Macroeconomics is the branch of economics that deals with
2. the economy as a whole.
3. imperfectly competitive markets.
4. only the long run adjustments to equilibrium in the economy.
5. the functioning of individual industries and the behaviour of individual decision-making units business firms and households.

Answer: the economy as a whole

1. Government policies that focus on increasing production rather than demand are called:
2. fiscal policies.
3. monetary policies.
4. incomes policies.
5. supply-side policies.

Answer: supply-side policies.

1. In the circular flow of income, Keynesian equilibrium obtains when
2. All the individual sectors are in equilibrium: S=I, T=G, M=X
3. The aggregate injections equal aggregate withdrawals S+T+M = I+G+X
4. There is no inflation or unemployment
5. The interest rate and exchange rate are at their market clearing levels

Answer: The aggregate injections equal aggregate withdrawals S+T+M = I+G+X

1. As the MPS increases, the multiplier will
2. increase.
3. either increase or decrease depending on the size of the change in investment.
4. remain constant.
5. decrease.

Answer: decrease

1. In macroeconomics, equilibrium is defined as that point at which
2. planned aggregate expenditure equals aggregate output.
3. planned aggregate expenditure equals consumption.
4. aggregate output equals consumption minus investment.
5. saving equals consumption

Answer: planned aggregate expenditure equals aggregate output.

1. Cyclical unemployment is the
2. portion of unemployment that is due to changes in the structure of the economy that result in significant loss of jobs in certain industries.
3. unemployment that results when people become discouraged about their chances of finding a job so they stop looking for work.
4. portion of unemployment that is due to seasonal factors.
5. unemployment that occurs during recessions and depressions.

Answer: unemployment that occurs during recessions and depressions.

1. In the long run, the Phillips curve will be vertical at the natural rate of unemployment
2. the long-run supply curve is horizontal at the natural rate of inflation.
3. the long-run aggregate demand curve is vertical at potential GDP.
4. the long-run aggregate demand curve is horizontal at the natural rate of inflation.
5. the long-run aggregate supply curve is vertical at potential GDP

Answer: the long-run aggregate supply curve is vertical at potential GDP

1. Exchange rates that are determined by the unregulated forces of supply and demand are
2. floating exchange rates.
3. pegged exchange rates.
4. fixed exchange rates.
5. managed exchange rates.

Answer: floating exchange rates

1. Identify the three motives of money demand:
2. Accumulative, speculative, precautionary
3. Speculative, transaction, precautionary
4. Precautionary special, transaction
5. None

Answer: Speculative, transaction, precautionary

1. When the central bank sells government bonds on the open market we have:
2. contractionary monetary policy.
3. expansionary monetary policy.
4. contractionary fiscal policy.
5. expansionary fiscal policy.

Answer: contractionary monetary policy

1. Tax cuts designed to encourage investment are:
2. contractionary monetary policy.
3. expansionary monetary policy.
4. contractionary fiscal policy.
5. expansionary fiscal policy

Answer: expansionary fiscal policy

1. An increase in social security payments would work as:
2. contractionary monetary policy.
3. expansionary monetary policy.
4. contractionary fiscal policy.
5. expansionary fiscal policy.

Answer: expansionary fiscal policy

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