MACRO

Important Areas

→ Classical Eco

→ Solow Growth Model **

→ Keynesian Theory **

→ IS-LM ***

→ Phillips Curve

→ AD-AS Structure

Seven troubles + models

1. Mankiw * → Macro

2. Branson → Diagrams

3. [MAC] →

4. R.G.D. Allen → Macro

ECONOMI...

IS-LM model..

$Y \to NI/\text{output}$

$I \to$ Nominal Rate of Interest

$i = r + \Pi$

Real Inflation Rate
Nominal
Interest
Rate

1. Which of the following can be an equation representing the money market
   (a) $300 = 2Y - 1.5i$ (b) $i = 150 - Y$
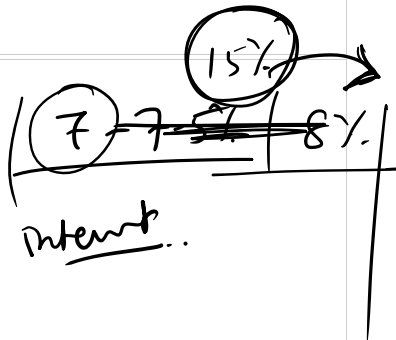   (c) $Y = 100 - i$ (d) $i = (150 - 2Y)/2$
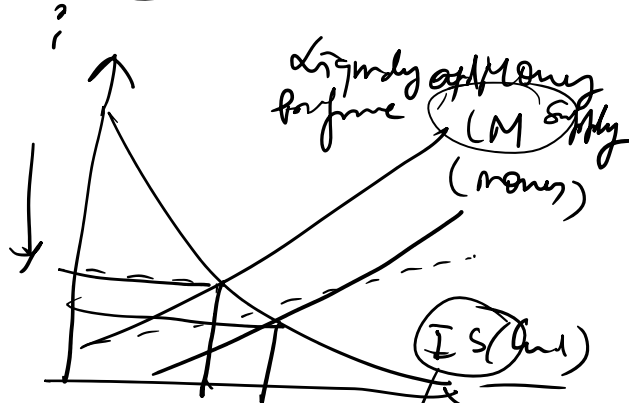
   $\longrightarrow$ money supply

   $300 = $ Money demand

Education down

$S Y_m$ pay

higher n interest..

24% $7 - 7 - 8\%$ 15%

Higher Rate of interest

MD !

?

2 (D)

2. Which one of the following is not correct about LM schedule?
   (a) The LM schedule slopes upward to the right.
   (b) The LM schedule will be relatively flat (steep) if the interest elasticity of money demand is relatively high (low).
   (c) The LM schedule will shift downward (upward) to the right (left) with an increase (decrease) in the quantity of money.
   (d) The LM schedule is the schedule giving the combinations of values of investment and interest

Liquidity of Money
for from   LM Supply
             (money)

I S (dad)

Steepout

flatter Invest & Saving

flatter

(d) The *LM* schedule is the schedule giving the combinations of values of investment and interest rate that produce equilibrium in the money market.
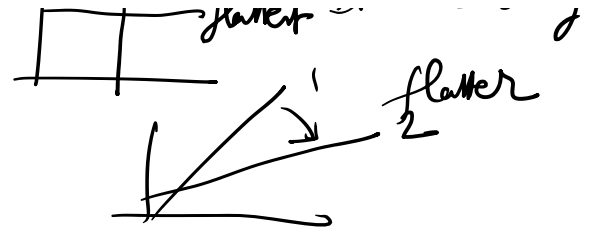
4. When MPS is 0.25 and initial increase in autonomous spending is Rs. 100, then the expenditure multiplier and resultant increase in GDP respectively are:

(a) 1. Rs. 100

(b) 0.75, Rs. 75

(c) 4, Rs. 400

(d) 1.33, Rs. 133

4(c)

$$K = \frac{1}{1-MPS} = \frac{1}{MPC}$$

$$K = \frac{1}{1-0.25}$$

$$K = 4$$

Resultant Increase in GDP = K × (initial ↑ in autonomous spending)

= 4 × 100 = 400

5(b)

5. Given the income multiplier formula $m = \frac{1}{1-MPC}$ lower the marginal propensity to save.
   (a) Higher will be the multiplier effect
   (b) Lower will be the multiplier effect
   (c) Multiplier will become infinite
   (d) Multiplier will become zero

$$m = \frac{1}{MPS}$$

$$MPC + MPS = 1$$

$$MPS = 1 - MPC$$

A liquidity trap ? → When nominal interest Rate
                                    → 0

bear → less int   & Central bank is unable to stimulate
bull → more int fast growth ..   the economy by monetary policy.

6. In the extreme case of liquidity trap   So, less interest Rate
   (a) There will be tendency to buy bonds   dd for money is very elastic
   (b) Most of the investors will show bearish behaviour   So, more cash in hand.
   (c) Cash will be less preferred
   (d) Price of the bond will be low   Investor may face limited options of

6(b)

9(c)

9. According to Tobin's Q theory of investment, when should a firm invest?

A. there is increase in the price of output

B. there is an increase in marginal product of capital

C. there is an increase in rate of interest

D. there is a decrease in rate of depreciation

E. marginal benefit of investment exceeds marginal cost

Choose the correct answer from the option given below:

(a) B, C, D, E only

(b) A, C, D, E only

(c) A, B, D, E only

(d) A, B, C, D only

$Q > 1$

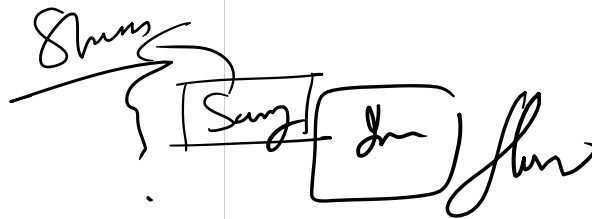$Q > 1$ Investment ↑

$Q < 1$ I ↓

$Q \approx 1$ I ↔

from will invt on new Capital or forgoals when pmnt value of expected future Cash flows for invtmnt > Cost of investment.

(Q)

$Q \rightarrow$ Ratio of mrmt value of asset

Replacement Cost

$\rightarrow \dfrac{10000}{25000}$ $\dfrac{1000}{25000}$

$Q \downarrow \downarrow$

16. Adjusted Net Saving (ANS) is
    (a) a proxy for change in per capita wealth
    (b) a stock variable
    (c) a flow variable ✓
    (d) unable to capture policy-induced dynamics

18 (c)

18. Match List I with List II

LIST I	LIST II
A. Central Bank Loss Function	I. $y_t = A = ar_{t-1}$
B. Monetary Rule (MR)	II. $\pi_t = \pi_{t-1} + \alpha(y_t - y_e)$
C. Phillips Curve (PC)	III. $(y_t) = (y_e) = -\alpha\beta(\pi_t - \pi^T)$
D. Dynamic IS Curve	IV. $L = (y_t - y_e)^2 + \beta(\pi_t - \pi^T)^2$

Choose the correct answer from the options given below:

(a) A-II, B-III, C-IV, D-I
(b) A-III, B-II, C-IV, D-I
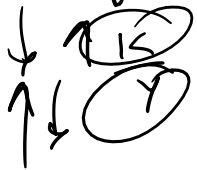(c) A-IV, B-III, C-II, D-I
(d) A-IV, B-III, C-I, D-II

Relation inflation & Unemployment.

π = inflation
$\pi^T \rightarrow$ Target Rate of inflation

26(b)

human emotions & sentiments that affect centomar & Investment behaviour... In a volatile economic conditions

26. The Keynes's animal spirits are closely associated with
(a) Past investment
(b) Current investment ✓
(c) Aggregate income
(d) Aggregate expenditure

28. In accelerator theory, capital output ratio is assumed to be
    (a) Increasing
    (b) Independent from level of National income
    (c) Decreasing
    (d) Constant ✓

Relation b/w
changes in Investment & changes in Output...

The theory assumes that
↓ ↑ ⑮ Ratio is Const
↑ ↓ Ⓨ
Adjust in a way to maintain the Constant Ratio...

29. Which of the following statements are correct?
    A. According to the accelerator model, investment demand is proportional to the change in GDP.
    B. The real rate of interest is the nominal rate of interest plus the inflation rate.
    C. The higher the real interest rate, the higher is the rental cost of capital.
    D. Investment is a stock concept.
    E. Residential investment is low when mortgage interest rates are high.

Choose the correct answer from the options given below:

(a) B, C and D only   (b) A, C and E only
(c) A, B and E only   (d) C, D and E only

$r = i + \pi$

$ID \propto GDP$

$\dfrac{ID}{GDP} = \text{Cons}$

$i = r + \pi$

29 (b)

30. Match List I with List II

List I	List II
A. Extra risk that an investor must incur to enjoy a higher expected return.	I. Risky Asset
B. Tendency of individuals to value an item more when they own it than when they do not.	II. Moral Hazard
C. Provides an uncertain flow of money or services to its owner.	III. Price of Risk
D. When a party whose actions are unobserved can affect the probability of payment associated with an event.	IV. Endowment effect

Choose the correct answer from the options given below:

(a) A-I, B-IV, C-III, D-II
(b) A -III, B-IV, C-I, D-II
(c) A -III, B-IV, C-II, D-I
(d) A -I, B-II, C-III, D-IV

A — III
B — IV
C — I
D — II

32. The money supply in the IS-LM model is assumed to be
   (a) Real narrow money
   (b) Nominal money supply
   (c) Nominal Broad money
   (d) Real money supply

34. Given below are two statements:

Statement I: The IS curve is negatively sloped because an increase in the interest rate reduces planned investment spending and therefore reduces the equilibrium level of income.

Statement II: The smaller the multiplier and the less sensitive investment spending is to changes in the interest rate, the steeper is the IS curve.

In the light of the above statements, choose the correct answer from the options given below:

(a) Both Statement I and Statement II are correct

(b) Both Statement I and Statement II are incorrect

(c) Statement I is correct but Statement II is incorrect

(d) Statement I is incorrect but Statement II is correct
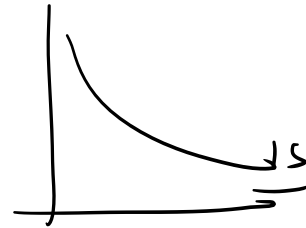
40. The main features of Treasury bills are that:
    A. They are issued at a discount and are repaid at par on maturity.
    B. They have low liquidity on account of their short tenure.
    C. there is no default risk.
    D. they offer an assured yield.
    E. They have a high transaction cost.
    Choose the correct answer from the options given below:

    (a) A, B and C only
    (b) A, C and D only
    (c) A, D and E only
    (d) A, C and E only

41. Arrange the following chronologically in order of their introduction.
A. Ad hoc Treasury bills (T-bills)
B. 28 Days T-bills
C. 14 Days T-bills
D. 364 Days T-bills
E. 182 Days T - bills

Choose the correct answer from the options given below:

(a) A, D, E, B, C
(b) A, E, D, C, B
(c) D, E, A, B, C
(d) E, A, C, D, B

42. In context of monetary policy, the sacrifice ratio refers to the _____
    (a) Interest cost arising because of crowding out effect
    (b) Loss of real value of money at the face of increasing inflation
    (c) Output cost of reducing inflation
    (d) Labour cost raising minimum wage

44. Rational expectations views include:
    A. The market clearing rational expectations do not approach to the Phillips curve
    B. Rational expectation as a theory of expectations
    C. An emphasis on the credibility of policy makers
    D. A preference for policy making rules rather than discretion
    E. Generally insists that markets do not clear rapidly.

    Choose the most appropriate answer from the options given below:

    (a) B, C and D only

    (b) A and E only

    (c) A, B, C, D and E

    (d) A, D and E only

45. Which of the following are correct with respect to the IS-LM model?
    (A) The LM schedule slopes upward to the right.
    (B) The LM schedule will shift to the left with an increase in quantity of money
    (C) The LM schedule gives equilibrium in the money market
    (D) The IS schedule will shift to the left when these is an increase in government expenditure
    (E) The IS schedule will shift to the right when taxes are reduced

    Choose the most appropriate answer from the options given below:
    (a) (A), (C), (E) only
    (b) (A), (B), (C), (D) only
    (c) (A), (C) only
    (d) (B), (D), (C), (E) only

40
41
42
44
45

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46. The irrelevance of money for real variables in the classical system is called
   (a) Fiscal neutrality
   (b) Exchange rate neutrality
   (c) Technological neutrality
   (d) Monetary neutrality

47. "Menu Cost" is a concept used in
    (a) Classical economics
    (b) New-Keynesian economics
    (c) Keynesian economics
    (d) Neoclassical economics

49. Real and nominal income is calculated respectively at
    (a) Current and constant prices
    (b) Constant and constant prices
    (c) Current and current prices
    (d) Constant and current prices

51. What will be the aggregate Domestic Income NDP (FC) of the economy for 2022-23;

If GDP (Market Price) = 27,654 Crores

Depreciation = 2847 crores

Indirect taxes less subsidies = 2160 crores

(a) 24,807

(b) 26,967

(c) 28,467

(d) 22647

52. Tools of expansionary Fiscal policy include

(A) Raising Government expenditure

(B) Reducing Government expenditure

(C) Increasing tax rate

(D) Reducing tax rate

(E) Increasing money supply

Choose the correct answer from the options given below:

(a) (B), (C) only

(b) (A), (D), (E) only

(c) (B), (C), (E) only

(d) (a), (d) only

53. Which of the following strategies is not correct in order to have an expansionary impact of fiscal policy?
    (a) Public expenditure must be financed through increased taxes only
    (b) Compensatory spending for public investment
    (c) Cut in taxes
    (d) Public expenditure must be financed by borrowings

54. Monetary policy instruments are
    (A) Changes in public expenditure
    (B) Changes in taxation
    (C) Open market operations
    (D) Bank reserve requirement
    (E) Interest rate policy
    Choose the most appropriate answer from the options given below:
    (a) (A), (B) only
    (b) (A), (B), (C) only
    (c) (B), (D), (E) only
    (d) (c), (d), (e) only

56. Match List I with List II:

List I	List II
(A) Money supply and price level in an economy are indirect proportion	(I) A.W. Phillips
(B) Inverse relationship between unemployment and rate of wage inflation	(II) Fisher
(C) Profit as reward for innovation	(III) Robert Lucas
(D) Policy ineffective proposition	(IV) Joseph Schumpeter

Choose the correct answer from the options given below:

(a) (A)-(III), (B)-(II), (C)-(I), (D) (IV)

(b) (A)-(II), (B)-(IV), (C)-(III), (D)-(I)

(c) (A)-(IV), (B)-(III), (C)-(II), (D)-(I)

(d) (a)-(ii), (b)-(i), (c)-(iv), (d)-(iii)

57. What type of relationship the Phillips curve postulates between the rate of unemployment and the rate of increase of money wages?

(a) Inverse

(b) Direct

(c) Direct and proportional

(d) Inverse and proportional

58. In the context of investments, which of the following statement(s) is/are CORRECT?

   (A) According to the accelerator model, investment demand is proportional to change in income

   (B) The higher the real interest rate, the higher is the rental cost of capital

   (C) Investment is a stock variable

   (D) The real rate of interest is equal to the nominal rate of interest plus the inflation rate

   Choose the correct answer from the options given below:

   (a) (A) and (B) only   (b) (A) and (D) only

   (c) (B) and (C) only   (d) (C) and (D) only

60. Which one of the following correctly describes the concept of 'Super Multiplier'?
   (a) Investment multiplier
   (b) Money multiplier
   (c) Interaction between multiplier and accelerator
   (d) Employment multiplier

61. Given:

I = 50 + 0.2Y

s = 150 + 0.4Y

G = 50

Where, I = Investment, S = Savings G = Government Expenditure Y = National Income

What is the equilibrium income?

(a) 2500

(b) 1250

(c) 250

(d) 1500

62. The independence of real variables from changes in money supply and nominal variables is called:
    (a) Keynesian dichotomy
    (b) Classical dichotomy
    (c) Money illusion
    (d) Money multiplier

63. Match List-I with List-IL:

List-I

(A) Menu cost

(B) Quantitative Easing

(C) Pump Priming

(D) Trade-off between policy inflation and unemployment

List- II

I. Monetary policy

II. Inflation

III. Phillips curve

IV. Fiscal POLICY

Choose the correct answer from the options given below:

	(A)	(B)	(C)	(D)
(a)	2	1	4	3
(b)	1	2	3	4
(c)	3	4	1	2
(d)	4	3	2	1

64. Which of the following functions will result in an investment multiplier of value 4?

(A) C = 50 + .25 Y

(B) C = 50 + .75 Y

(C) s = -50 + .25 Y

(D) s = 50 + .75 Y

Choose the correct answer from the options given below:

(a) (A) and (C) only

(b) (C) and (D) only

(c) (A) and (D) only

(d) (B) and (C) only

65. In the context of investments, which of the following statement(s) is/are CORRECT?
   (A) According to the accelerator model, investment demand is proportional to change in income
   (B) The higher the real interest rate, the higher is the rental cost of capital
   (C) Investment is a stock variable
   (D) The real rate of interest is equal to the nominal rate of interest plus the inflation rate

   Choose the correct answer from the options given below:

   (a) (A) and (B) only
   (b) (A) and (D) only
   (c) (B) and (C) only
   (d) (C) and (D) only