

Multiple Choice Questions

EC010202 Macroeconomics II -

Second Semester PG Private

1. The rational expectations hypothesis implies that when macroeconomic policy changes,
 - (a) the economy will become highly unstable.
 - (b) the way expectations formed will change.
 - (c) people will be slow to catch on to the change.

2. Which among the followings is not the feature of monetarism?
 - a. Demand- deficient unemployment
 - b. Only a trade-off between money supply and real output in the short-term
 - c. emphasis natural rate of unemployment.

3. The idea of Adaptive expectation is associated with
 - a. Natural Unemployment rate hypothesis
 - b. New Classical Economics
 - c. Both A and B

4. If the actual rate of unemployment exceeds to natural rate of unemployment then
 - A. Actual output of the economy will fall below its potential
 - B. Consumption of goods decreases
 - C. Both (a) and (b)

5. In a new classical macroeconomic model, the demand management policies affect aggregate output
 - (a) When the macro policy change is anticipated.
 - (b) When the macro policy change is unanticipated.
 - (c) Only after a long time lag when the policy is anticipated.

6. Monetarists argued that changes in money supply will cause

- a. changes in real output only in long run
- b. changes in real variables only in short run
- c. changes in real variables both in short run and long run.

7. The basic idea behind real business cycle theory is that

- a. Supply-side factors are responsible for short run cyclical fluctuations in real GDP and employment.
- b. Demand side factors are responsible for short run cyclical fluctuations in real GDP and employment.
- c. Demand side factors are responsible for long run cyclical fluctuations in real GDP and employment.

8. Which among the following is not true with regard to real business cycle theory.

- a. Technological shocks cause changes in factor productivity that leads to changes in output
- b. Monetary factors cause cyclical fluctuations in the economic activity.
- c. The major source of fluctuations in in output is shift in aggregate supply.

9. According to rational expectation hypothesis expansion in economic activity occurs when there is

- a. When there is technological shocks
- b. when government introduced fiscal policy measures.
- c. when there is unanticipated increase in aggregate demand

10. Monetarists argue that

- a. instability in supply side factors cause cyclical fluctuations.
- b. changes in aggregate demand cause cyclical fluctuations.
- c. instability in growth of money supply cause cyclical fluctuations.

11. In the new classical model,

- (a) Wages and prices are sticky with respect to expected changes in the price level.
- (b) Only unanticipated policy can affect aggregate output and unemployment.
- (c) An anticipated increase in the money supply will increase aggregate output temporarily.

12. If the current real wage is above the normal real wage, workers will have an incentive to work more in the present and take more leisure in the future. This feature is called

- a. Stickiness of nominal wage
- b. Insider and Outsider model
- c. Intertemporal substitution

13. According to Ratem hypothesis, stabilisation policies are

- a. ineffective in short run
- b. ineffective both in short run and in long run
- c. effective in both short run and in long run

14. In the Friedman-Phelps acceleration hypothesis of the Phillips curve,

- a. there is a short-run trade-off between unemployment and inflation but no long-run trade-off exists.
- b. there is a short-run trade-off between unemployment and inflation but no long-run trade-off exists.
- c. there is neither short-run nor long-run trade off exists between unemployment and inflation.

15. The reason for a short-run trade-off between unemployment and inflation in the Philip's curve is that

- a. inflationary expectations are based on past behaviour of inflation which cannot be predicted accurately.
- b. inflationary expectations are based on all current available information to forecast future inflation more accurately.
- c. inflationary expectations are based on the present fiscal policy measures to forecast future inflation more accurately.

16. Supply-side economics is a school of economic thought

- a. emerged in the mid-1970s as a response to stagflation.
- b. came into existence in 1930s to solve the problem of great depression
- c. its basic principles are underlined in the works of the Keynesian economics.

17. Modern supply-side economics lays emphasis on

- a. economic incentives to raise aggregate demand in the economy.
- b. regarded tax cuts as an effective means of raising the economic growth rate of the economy.
- c. advocates increase in Government expenditure in boosting up the economy

18. The Laffer curve depicts the relation between

- a. tax rate and economic growth.
- b. tax rate and tax revenue.
- c. tax rate and Government expenditure.

19. Which among the following is not a supply side economist?

- a. Arthur Laffer
- b. Robert Mundell
- c. Robert Lucas

20. According to new classical economists any discrepancy between the actual and expected rate of inflation by economic agents

- a. is in the nature of random error.
- b. is the result of systematic error.
- c. is the result of short run trade off between inflation and unemployment.

21. Under aggregate supply hypothesis, If the current real wage is above the normal real wage,

- a. workers will have an incentive to work more in the present and take more leisure in the future.
- b. workers will have an incentive to take more leisure in the present and work more in the future.
- c. workers will have an incentive to work equally both in present and in the future.

22. Which among the following are the proponents of real business cycle theory.

- a. Kydland and Prescott
- b. Robert Lucas and Arthur Laffer,
- c. Robert Mundell and Simon Kuznets

23. Which among the following is the assumption of real business cycle theory.

- a. The economy is subject to irregular monetary shocks.
- b. Substantial technological shocks will affect the whole economy
- c. It explains long run economic fluctuations

24. Which among the following comes under supply side policy

- a. Increase in Government Spending.
- b. Reduction in Welfare Benefits.
- c. The Philip's Curve.

25. According to Laffer curve 100 percent of tax rate will yield

- a. 100 percent tax revenue
- b. 0 percent tax revenue
- c. 50 percent tax revenue.

26. Which phase of trade cycle is characterised by mass unemployment :

- a. inflation
- b. boom
- c. depression

27. To control a recession, the central bank follows

- a. cheap monetary policy
- b. tight monetary policy.
- c. contractionary monetary policy

28. In new Keynesian economics, wage and price stickiness have inconsistencies and spillovers lead to

- a. Implicit Contract
- b. Shirking of workers
- c. coordination failure.

29. Which among the following is a nominal wage rigidity theory under new Keynesian analysis

- a. Staggered Wage Contracts Theory
- b. Implicit Contract theory
- c. Menu cost theory

30. When workers give less than full effort on the job, it is called

- a. intertemporal substitution model
- b. shirking
- c. Implicit contracts

31. The insider and outsider theory of labour market was developed by

- a. Lindbeck and Snower
- b. Baily and Azariades
- c. Grossman and Hart

32. Which among the following comes under real wage rigidity theory in new Keynesian economics.

- a. Staggered Wage Contracts theory and menu cost theory
- b. Insider and Outsider theory and implicit contract theory
- c. Staggered Wage Contracts Theory and implicit contract theory

33. In new Keynesian economics which among the following comes under nominal wages stickiness.

- a. menu cost theory
- b. implicit contract theory
- c. staggered Wage Contracts Theory

34. Which among the following is not a feature of monetarism

- a. Quantity theory of money
- b. Constant money growth rule
- c. Aggregate supply hypothesis

35. Building cycle was popularised by

- a. Joseph Kitchin
- b. Kondratiff
- c. Warren and Pearson

36. Stagflation is a new economic phenomena which occurred in 1970s was a situation of combined existence of

- a. inflation and unemployment
- b. inflation and high employment
- c. deflation and high employment

37. Restriction in aggregate supply which leads to stagflation is caused by

- a. a rise in money wages on account of strong unions
- b. rise in the world prices of food grains
- c. All of the above.

38. In the Laffer curve, right portion of the optimum tax rate is called

- a. optimum range
- b. normal range
- c. prohibitive range

39. Supply side economics is a school of economic thought which emerged to solve the problem of _____ occurred in UK

- a. Inflation
- b. Depression
- c. Stagflation
- d. Recession

40. Who was the president in U S A who popularised supply side economics for solving stagflation.

- a. John F Kennedy
- b. Woodrow Wilson
- c. Ronald Regan

41. New Keynesian School advocates that prices and wages are "sticky" meaning

- a. they adjust fastly to technological shocks
- b. they adjust slowly to short-term economic fluctuations
- c. they adjust fastly to short-term economic fluctuations

42. Which of the following comes under New Keynesian economics.

- a. menu costs
- b. sticky prices
- c. Both a and b

43. The term 'policy impotency' in rational expectation hypothesis indicates

- a. fiscal policy will be ineffective in the long-run.
- b. fiscal policy will be effective in short run only if it is unanticipated
- c. both a and b

44. Under Rarx hypothesis, expectations are formed based on

- a. current economic informations
- b. past informations
- c. past government policies

45. The new classical Philips curve is

- a. downward sloping both in short run and in long run
- b. vertical both in short run and in long run
- c. downward sloping in short run and vertical in long run

46. The new classical economists infer that

- a. short-run supply curve of labour is relatively inelastic
- b. short-run supply curve of labour is vertical and the long-run supply curve of labour is elastic
- c. short-run supply curve of labour is relatively elastic and the long-run supply curve of labour is vertical

47. Under aggregate supply hypothesis, in the long run the supply curve for labour is vertical because

- a. real wages are permanent
- b. actual and expected price levels are the same
- c. Both a and b

48. The reason for Robert Lucas's criticism against the building of macroeconomic models of for policy evaluation is that

- a. Macro models were based on parameters derived from past data collected under particular policies.
- b. The parameters of macro economic models may change as economic agents adjust their expectations and behaviour to the new policy.
- c. Both a and b

49. Stagflation can be controlled by

- a. Tax based income policies
- b. Reduce personal and business tax
- c. Both a and b.

50. In real business cycle theory, changes in the money supply

- a. change potential GDP and price level
- b. change only price level
- c. change employment and price level

51. According to monetarists

- a. money does not matter

- b. Only money matters
- c. money is neutral

52. Dynamic inconsistency is a situation in which

- a. changes in the business policy over time
- b. change in Government over the time
- c. decision maker's preference change over time

53. In real business cycle, aggregate production curve shifts upwards when there is

- a. increase in money supply
- b. positive technological shock
- c. tax cut

54. 'Money is a veil' means

- a. Money does not influence real variables such as employment and output.
- b. money supply only determines price level
- c. Both a and b

55. In new Keynesian economics,

- a. wages and prices fail to adjust continuously.
- b. market clears continuously.
- c. flexible prices and wages.

56. In the new Keynesian economics, sticky nominal wages exists because

- a. wages decline under deteriorating economic conditions.
- b. wage contracts between workers and firms over a period.
- c. Low costs of collecting information about labour and negotiating wage agreements..

57. The reason of existence of involuntary unemployment in the new Keynesian theory is that the

- a. workers are paid higher than the market clearing wages

- b. workers are underpaid.
- c. workers got payment on the prevailing economic conditions

58. Workers and firms enter into implicit contracts because

- a. firms exerts pressure to enter into contracts
- b. workers are risk-averse with respect to income and employment.
- c. firms fears that the workers may leave their jobs

59. Under Insider and Outsider model, insiders are

- a. firms who gave employment to workers.
- b. workers who already have jobs.
- c. workers who are waiting for the jobs to enter.

60. In new Keynesian economics, wage rigidity and the failure of market-clearing mechanism occurs due to

- a. payment of market clearing wage.
- b. payment of minimum wage.
- c. payment of efficiency wage.

61. Under selection theory firm avoids adverse selection by

- a. paying a wage higher than minimum wage to workers
- b. paying market clearing wage
- c. paying less than market clearing wage

62. In real business cycle theory, the production function of the economy is given by

$Y = Z f(K, N)$. Z indicates

- a. money supply
- b. state of technology
- c. capital stock

63. Very long business cycles which has of more than 50 years duration, made of six Jugler cycles is known as

- a. Building Cycles.

- b. Kondratieff Cycle.
- c. Kitchin Cycle

64. Business cycle refers to the phenomenon of wave-like fluctuations in

- a. employment
- b. income
- c. Both a and b

65. Which trade cycle is known as the minor cycle?

- a. Building Cycles.
- b. Kuznets Cycle.
- c. Kitchin Cycle

66. The book 'A Contribution to the Theory of the Trade Cycle' was written by

- a. J R Hicks
- b. J M Keynes
- c. Paul M Samuelson

67. Goodwin's model of trade cycle is based on

- a. multiplier accelerator interaction
- b. non linear model
- c. change in marginal efficiency of capital

68. Under Samuelson's trade cycle, the value of cycleless path is

- a. $\alpha = .5, \beta = 3$
- b. $\alpha = .5, \beta = 2$
- c. $\alpha = .5, \beta = 0$

69. Under Samuelson's trade cycle, a compound interest rate of growth is approached on

- a. Cycleless Path
- b. Cycleless Explosive Path
- c. Fluctuations of Constant Amplitude

70. In Hicksian trade cycle, the warranted rate of growth is the rate which is consistent with

- a. consumption equals to saving
- b. autonomous investment equals to induced investment
- c. real saving equal to real investment

71. The great recession which occurred on 2007–2008 phase was also called

- a. Suez Crisis
- b. subprime mortgage crisis
- c. East Asian Economic Crisis

72. The reason for global financial crisis is

- a. loose lending rates in the housing market
- b. strong credit rating activities
- c. high interest rate

73. The procedure of pooling various financial assets into one group and then selling this group of repackaged assets to investors is called

- a. great moderation
- b. securitisation
- c. monetisation

74. The main reason of financial crisis is investment banks sell financial products to investors which include

- a. coupon bonds and Preferred Equity Certificate
- b. Preferred Equity Certificate and mortgage backed securities
- c. mortgage backed securities and credit default swaps

75. The major credit rating agencies in USA whose credit rating activities lead to financial crisis.

- a. Moody's and S&P
- b. Lehman brothers, Merrill Lynch
- c. S&P and Goldman Sachs

76. The major failure of credit rating agencies which leads to financial crisis

- a. Highest rating given to risky financial products
- b. stability of ratings
- c. junk status to debt instruments

77. The major function of credit rating agency include

- a. Reducing the information asymmetry
- b. Assessing default probabilities with available informations
- c. Both a and b

78. _____ defines the tipping point when speculative activity reaches an extreme that is unsustainable, leading to rapid price deflation and unpreventable market collapse.

- a. Inflationary gap
- b. Minsky Moment
- c. notional demand

79. According to Samuelson _____ gives rise to cyclical fluctuations in economic activity

- a. technological shocks
- b. fluctuations in aggregate effective demand
- c. interaction between multiplier and accelerator

80. Which phase of business cycle contains only frictional and structural unemployment in the economy.

- a. Recession
- b. Recovery
- c. Prosperity

81. Minsky's most significant contributions to the economic field was

- A) Financial Instability Hypothesis
- B) Rational Expectation
- C) Excess demand model

82. Important feature(s) of the Post-Keynesian economics

- (A) Importance of Real, Historical Time
- (B) Uncertainty and Expectations
- (C) Both A & B

83. In the context of different business cycle theories match the nature of cycle/approach given in List – I with the propounders in List – II :

List– I

List – II

i. Constrained Cycles

1. Paul A. Samuelson

ii. Acceleration – Multiplier Interaction Approach

2. J. R. Hicks

iii. Capital – Stock Adjustment Principle

3. Nicholas Kaldor

iv. Real Business Cycles

4. Robert J. Barro

Codes :

i ii iii iv

(A) 2 1 3 4

(B) 1 2 4 3

(C) 2 1 4 3

84. The financial crisis of 2007-08 originated in the following country.

(A) Russia

(B) United States

(C) England

85. The fourth biggest U.S. investment bank that collapsed during the financial crisis of 2007-08 and filed the largest bankruptcy in U.S. history was:

(A) Morgan Stanley

(B) Bank of America

(C) Lehman Brothers

86. In efficiency wage model, the real wage is set to

(A) Minimise the efficiency of worker per rupee of real wage received

(B) Maximise the efficiency of worker per rupee of real wage received

(C) Clear the labour market

87. The rational expectations hypothesis does not imply:

a) People do not make systematic errors

b) On average the economy will be close to the LAS curve

c) Policy makers have better information about the economy than other economic actors

88. According to the _____, ill-timed policy interventions may actually worsen the business cycle due to the long and variable lags between the recognition of an economic problem and the ultimate impact of a change in monetary policy.

a) Friedman Critique

b) Phelps' Doctrine

c) Lucas Model

89. The dominant way of thinking about business cycles is the...

a) ...real business cycle theory.

b) ...impulse propagation mechanism.

c) ...deterministic AS-AD system

90. Whether an economic shock is identified as being a supply shock or a demand shock makes a great difference for aggregate demand management because....

a) in the face of a supply shock aggregate demand policy will not be particularly useful since it will either compound the impact on inflation or unemployment of a supply shock

b) ...supply shocks demand contractionary aggregate demand policy but expansionary monetary policy.

c) ...partisan business cycles are generated by supply shocks and real business cycles are generated by demand shocks.

91. Which solution do Keynesians prefer for a positive demand shock?

a) Pursuing an expansionary policy.

b) Increase government spending.

c) Lower taxes.

92. The term "acceleration principle" in the economics was introduced by whom?

(A) J M Clark

(B) J M Keynes

(C) Paul Samuelson

93. Real business cycle theories suggest that _____ to correct departures from the desired growth path?

- A. There is a role for fiscal policy
 - B. There is a role for monetary policy
 - C. There is a role for stabilizing output over the business cycle
94. The multiplier accelerator model assumes ____ depends on _____?
- A. consumption expected future profits
 - B. investment, interest rates
 - C. investment expected future profits
95. The business cycle describes fluctuations in output around the?
- A. trend path of output
 - B. short-run fluctuations in output
 - C. recession
96. Menu cost of post Keynesian explains
- a. price inflexibility
 - b. price flexibility
 - c. cost inflexibility
97. If MPC is zero, the level of a simple investment multiplier will be
- a. Zero
 - b. one
 - c. infinite
98. Value of Investment multiplier is determined by-
- a. marginal propensity to consume
 - b. Tax rate
 - c. Import intensity
99. Higher the value of MPS,
- a. Lower will be the value of multiplier
 - b. Higher will be the value of multiplier
 - C. No effect will be on multiplier

100. Under securitisation, selected pool of assets are 'passed through', for converting them into securities, to another institution called:.

A. Originator.

B. Special purpose vehicle

C. Credit rating company

Multiple Choice Questions Answer Key

Macroeconomics II -EC010202

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1. B
2. A
3. C
4. C
5. B
6. B
7. A
8. B
9. C
10. C
11. B
12. C
13. B
14. A
15. A
16. A
17. B
18. B
19. C
20. A
21. A
22. A
23. B
24. B
25. B
26. C
27. A
28. C
29. A

30. B

31. A

32. B

33. C

34. C

35. C

36. A

37. C

38. C

39. C

40. C

41. B

42. C

43. C

44. A

45. B

46. C

47. C

48. C

49. C

50. B

51. B

52. C

53. B

54. C

55. A

56. B

57. A

58. B

59. B

60. C

61. A

62. B

63. B

64. C

65. C

66. A

67. B

68. C

69. B

70. C

71. B

72. A

73. B

74. C

75. A

76. A

77. C

78. B

79. C

80. C

81. A

82. C

83. A

84. B

85. C

86. B

87. C

88. A

89. B

90. A

91. A

92. A

93. C

94. C

95. A

96. A

97. B

98. A

99. A

100. B