28/5/2016

Doon University, Dehradun
Final Examination, 2016
School of Social Science
MSc Semester – VIII (Economics)
Course – SSEI -521
Advanced Macroeconomics

Time Allowed: 3hrs Maximum Marks: 50

Section - A (7x2 = 14 Marks)

Attempt all questions

1. Which of the following is incorrect in context of wage indexation:
   a. Higher the proportion of wage contracts that are indexed, the larger the effect the unemployment rate has on the change in inflation.
   b. Without wage indexation, lower unemployment increases wages, which, in turn, increases prices. But wages do not respond to prices right away, there is no further increase in prices.
   c. When most labour contracts allow for wage indexation small changes in unemployment leads to very small changes in inflation.
   d. With wage indexation an increase in prices leads to a further increase in wages within the year.
2. The liquidity trap (zero nominal interest rate)is unlikely to be a serious problem when:
   a. The rate of inflation, actual and expected, is negative.
   b. The rate of inflation, actual and expected is positive.
   c. Given the nominal interest rate, higher expected deflation leads to an increase in the real interest rate.
   d. When output is below the natural level of output, the rate of deflation, actual and expected is likely to increase.
3. Which of the following explain the fisher effect?
   a. In short-run, the faster increase in nominal money will not be matched by an equal increase in the price level.
   b. In medium run the nominal interest rate increases one for one with inflation.
   c. In the short-run the higher rate of nominal money growth will lead to an increase in the real money stock.
   d. In medium run the nominal interest rate decreases one for one with inflation.
4. Which of the following statements are incorrect with regards to balanced growth path(steady state):
   a. When the economy is in steady state output per worker grows at the rate of technological progress.
   b. Capital per effective worker and output per effective worker are constant.
   c. Capital per worker and output per worker are growing at the constant rate.
   d. Capital and output grow at a rate equal to the sum of population growth and the rate of technological progress.

5. In short run, the real interest rate and the nominal interest rate both go down. Why don't they stay down forever?

   Arrange the following according to their occurrence:

   (1) Real interest rate is below the natural real interest rate- unemployment is below the natural rate of unemployment.

   (2) Real money growth turns negative, the nominal interest rate starts increasing and so does the real interest rate.

   (3) Real interest rate is below the natural real interest rate- output is higher than the natural level of output.

   (4) Inflation starts increasing and eventually becomes higher than nominal money growth.

   a. (1)(2)(3)(4)
   b. (3)(1)(4)(2)
   c. (2)(4)(1)(3)
   d. (3)(4)(1)(2)

6. How much Rs.100 next year worth this year? Given the 12% nominal interest rate.
7. Define 'sacrifice ratio'.

Section - B (4x4=16 Marks)

Attempt any four questions

1. What is Solow Residual?
2. Suppose you have the choice between holding one year bonds or two year bonds. Assuming that you and other financial investors care only about expected returns. Explain arbitrage relation given above situation.
3. What do you mean by yield to maturity? The 2-year interest rate is approximately the average of the current 1-year interest rate and the next year expected 1-year interest rate. Explain.
4. Disinflation can be achieved quickly at the cost of high unemployment for a few years. Explain?
5. What do you mean by steady state of the economy?

Section - C (4x5=20 Marks)

Attempt any four questions.

1. Shouldn't a zero nominal interest rate be enough to strongly stimulate spending and avoid a recession? Explain with regards to nominal and real interest rate.
2. What is non-accelerating inflation rate of unemployment?
3. Suppose that the central bank increases the rate of money growth permanently. What will happen to output and nominal and real interest rates in the medium run?
4. In an economy in which there is both capital accumulation and technological progress at what rate will output grow? Explain.
5. How do output and unemployment respond to increases in productivity in short run? In short run, increases in productivity sometimes decreases unemployment and sometimes increases it. Explain.
6. Explain the concept of wage indexation.