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

Time Allowed: 2hrs   Maximum Marks: 30

Section - A   (4x2 = 8 Marks)

Attempt all questions

1. What is 'sacrifice ratio'? What is its value as suggested by Phillips curve?
2. How does credibility decrease the unemployment cost of disinflation?
3. Which of the following is false in context of the economy in medium run:
   (a) Output growth is equal to the normal growth.
   (b) Nominal money growth affects output.
   (c) Unemployment is equal to the natural rate.
   (d) Nominal money growth affects inflation.
4. Arrange the following into a proper sequence as far as the mechanism of wage-price spiral goes:
   i. Higher inflation
   ii. Lower unemployment
   iii. Higher price level relative to last year
   iv. Higher nominal wage
   (Given the expected price level, which workers simply take to be last year's price level)
   (a) (i)(ii)(iii)(iv)
   (b) (iii)(ii)(iv)(i)
   (c) (ii)(iv)(iii)(i)
   (d) (iv)(i)(iii)(ii)

Section - B   (4x3=12 Marks)

Attempt all questions

1. What is natural rate of unemployment? How is it related to Phillips curve?
2. The total amount of unemployment required for a given decrease in inflation does not depend on the speed at which disinflation is achieved. Explain.

3. Consider the production function
$Y = (L)^{1/2}.(K)^{1/2}$
(a) Compute output when K=49 and N=81.
(b) If both capital and labour double, what happens to output?
(c) Is this production function characterised by constant returns to scale? Explain.
(d) Write this production function as a relation between output per worker and capital per worker.
(e) Let K/N=4. What is Y/N? Now double K/N to 8. Does Y/N more or less than double?
(f) Does the relation between output per worker and capital per worker exhibit constant returns to scale?
(g) Is your answer in (f) the same as your answer in (c)? Why or why not?
4. What is the difference between Phillips curve and modified Philips curve?

Section - C   (2x5=10 Marks)

Attempt all questions.

1. Rewrite the following aggregate supply relation as a relation between inflation, expected inflation, and the unemployment rate.
$P = P^e(1+\mu).F(u,z)$

2. Wage indexation automatically increases wages in line with inflation, but this in turn leads to a stronger response of inflation to unemployment. Explain.