M.A. Examination, 2015

Semester – IV

Economics

Paper : XIII

(Macroeconomics-II)

Time: 3 Hours **Full Marks: 40**

Questions are of value as indicated in the margin.

Answer ***any four*** questions

1. "Keynesian economics is a price theory without Walras law, and price theory with Walras law is just a special case of Keynesian economics". Discuss. 10

2. Discus how real balance effect eliminates involuntary unemployment and ensures a stable equilibrium in an economy. 10

3. What is the rational expectation hypothesis? Examine the effectiveness of stabilization policies under rational expectations. 2+8

4. Show that when the producers observe the prices of their own goods but not the aggregate price level, the observed component of monetary shock affects only prices, but the unobserved component has real effects. 10

5. What is the "assignment problem"? Discuss how a wrong assignment of policies can be unstable, moving the economy away from the achievement of internal and external balances simultaneously. 2+8

6. Show that when the price-setters follow a state-dependent pricing policy, aggregate output remains constant and money is completely neutral in the aggregate despite price stickiness at the level of individual price-setters. 10

7. Discuss how the Insider-Outsider model explains unemployment and wage. 10

8. How would you justify payment of higher wages to workers? Explain how efficiency wage can give rise to unemployment. 3+7