M.A. Examination, 2019
Semester-II
Economics
Course: C7
(Macro Economics-2)

Time: 3 Hours **Full marks: 40**

Questions are of value as indicated in the margin

Answer ***any four***questions.

1. Using Patinkin's four-market model with perfect wage-price flexibility, discuss how real balance effect ensures a stable full employment equilibrium in an economy by ensuring equilibrium simultaneously in commodity and bond markets. 10
2. Show that aggregate output remains constant and money is completely neutral in the aggregate despite price stickiness at the level of individual price setters, who are following a state-dependent pricing policy. 10
3. Distinguish between the adaptive and rational expectation hypotheses. Show that there is no scope for the authority to conduct systematic counter-cyclical policy under rational expectations. 3+7
4. Discuss how the Insider-Outsider model explains unemployment and wage movements. 10
5. What is the dual-decision hypothesis? Do you think that Keynesian economics is a price theory without Walras law, and price theory with Walras law is just a special case of Keynesian economics? Give reasons. 4+6
6. Show that the observed component of monetary shock affects only prices but the unobserved component has real affects under the condition when the producers observe the prices of their own goods but not the aggregate price level. 10
7. How would you justify payment of higher wage to workers? Discuss how the efficiency wage theory explains unemployment. 3+7
8. Using a macroeconomic model with perfect capital mobility and static expectation about exchange rate, examine the effectiveness of monetary and fiscal policies under flexible and fixed exchange rates. 10