 LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034

**M.A.** DEGREE EXAMINATION - **ECONOMICS**

SECOND SEMESTER – **NOVEMBER 2012**

# EC 2809 - MACRO ECONOMIC THEORY - II

Date : 06/11/2012 Dept. No. Max. : 100 Marks

Time : 1:00 - 4:00

**PART A**

**Answer any FIVE questions in 75 words each. Each question carries FOUR marks. 5 X 4 = 20**

1. State the assumptions of the Kaldor’s model of the trade cycle.
2. State the assumptions of the Diamond model of economic growth.
3. Mention the grounds on which Hicks’ theory of the business cycle is considered superior to Samuelson’s version.
4. What is Seignorage? How does it arise?
5. Mention the key propositions of the rational expectations model.
6. Differentiate between the infinite horizons and the overlapping generations models.
7. Explain the concept of random walk of GDP.

**PART B**

**Answer any FOUR questions in 300 words each. Each question carries TEN marks: 4 X 10 = 40**

1. Examine the implications of a simple R & D model of economic growth.
2. In the Solow growth model, assume positive population growth (n>0) and absence of technological progress (g=0, A=1). Assume that Y = √ K√ L , s = 0.4,

δ = 0.07, n = 0.03, where Y, K and L are output, capital and labour respectively, s

is the savings rate and δ is the depreciation rate. What are the steady-state levels

of capital, output and consumption per worker? Is consumption per worker

maximized in the steady state? What is the savings rate s\* that maximizes

consumption in the steady state?

1. Derive the central conclusions of the Diamond model.
2. Why does the rational expectations hypothesis postulate that anticipated changes in monetary policy will have no real effects?
3. Using real business cycle theory, discuss how productivity or supply shocks spread to the rest of the economy through various propagation mechanisms to generate business cycles.
4. How does Pierre Perron prove that both aggregate demand and aggregate supply shocks contribute to business cycle fluctuations?
5. Briefly describe a coordination-failure model.

**PART C**

**Answer any TWO questions in 1200 words each. Each question carries TWENTY marks:**

**2 X 20 = 40**

1. Explain how Goodwin makes use of the non-linear accelerator in his model of the trade cycle to prove the persistence of business cycles.
2. Derive a model of human capital and growth and examine its significance for developing economies.
3. Derive mathematically the Ramsey-Cass-Koopmans model of economic growth and highlight the major conclusions of this model.
4. Show how Hicks makes a significant contribution to the theory of the business

cycle by combining the accelerator-multiplier interaction with the forces of

economic growth.

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