Macroeconomic Theory and Stabilization Policy

Long Questions

Module 1: Introduction

1. Define recession.
2. What is a business cycle?
3. Is stagflation different from recession?
4. What is output gap?
5. Define Okun’s Law.
6. What are the broad schools of thought in macroeconomics?

Module 2: Measurement of Aggregate Economic Variables

1. How is GDP different from GNP?
2. How do you obtain GDP at factor cost?
3. How are inventories evaluated under national income accounting methods?
4. What is double counting?
5. How do you obtain Personal Disposable Income from Personal Income?
6. What are Contributions to Social Insurance?
7. How do you obtain Real GDP?
8. Is WPI different from CPI?
9. What is GDP Deflator?
10. Define unemployment?

Module 3: Classical Model

1. How is interest rate determined in the Classical model?
2. What are the assumptions of the Classical model?
3. How are prices and wages determined in the Classical model?
4. What is Quantity Theory of Money?
5. What is voluntary unemployment?
Module 4: Keynesian Cross Model

1. Obtain the goods market clearing condition with and without taxes and transfer payments.
2. What are the intercepts of the consumption function vis-à-vis savings function with or without taxes and transfer payments?
3. Draw the 2-part diagram of the Keynesian Cross Model with and without taxes and transfer payments.
4. Derive the Balanced Budget Multiplier.
5. Show that the expenditure multiplier is an infinite series.

Module 5: Investment Theory

1. Define investment, net investment and replacement investment.
2. What is inventory investment? What determines inventory investment?
3. What are intended and unintended investment?
4. Obtain the desired capital demand function under both profit maximization and cost minimization? [Assume a Cobb Douglas production function.]
5. What is the Flexible Accelerator Model of investment?
6. How is the short run and long run supply of residential investment related?

Module 6: IS-LM Model

1. Derive the Balanced Budget Multiplier in the IS-LM model.
2. Draw the phase diagram of the IS-LM model.
3. Explain the transmission mechanism under monetary policy.
4. Obtain the expenditure multiplier under (a) money supply policy and (b) interest rate policy.
5. What are the three modes of financing government expenditure in the IS-LM model? How will the expenditure multiplier alter under these three modes of financing?
6. Compare and contrast the effectiveness of fiscal and monetary policy in the IS-LM model.

**Modules 7 & 8: Variable Price Keynesian Model & Hybrid Model**

1. Use diagram to obtain the Keynesian supply function. What will be the algebraic expression of the slope of this function?
2. What is (are) the key assumption(s) of the Keynesian labour market?
3. What is involuntary unemployment?
4. What is money illusion? Is it necessary to have this assumption to obtain the Keynesian supply function?
5. Explain the transmission mechanism of monetary policy in the Keynesian model.
6. If the demand side of a macro model is of the IS-LM type and the supply side is classical, what can be the most effective policy to influence output?

**Modules 9 & 10: BOP Account and Exchange Rate Systems, & IS-LM-BP Model**

1. How is exchange rate determined?
2. Describe the various sub-accounts of the Balance of Payments account.
3. What is the Trade Account?
4. How is portfolio investment classified in the BOP account?
5. How are grants classified in the BOP account?
6. How are shipping costs classified in the BOP account?
7. Derive the government expenditure multiplier under flexible exchange rate?
8. What role does capital mobility play in determining the effectiveness of policy under fixed and flexible exchange rate systems?
9. How does devaluation affect a country’s output?
10. What determines the slope of the open economy IS function and the BP line?
11. How effective is monetary policy in an open economy?
12. How does the foreign interest rate affect domestic output?