

International Islamic University Chittagong

Department of Economics & Banking

Semester Ending Examination, Spring-2022

Program: BSS (Hons) in Economics & Banking

Course Code: ECON-4803

Course Title: Applied Macroeconomics

Time: 2 hours 30 minutes

Full Marks: 50

[Answer any five of the following questions. Figures in the right margin indicate full marks.]

QN	Description of Questions	Marks	CLOs & PLOs	Cognitive learning
1(a).	It is said that a higher interest rate raises the opportunity cost of holding money and thus reduces the quantity of money demanded. Do you agree with this statement? Support your answers based on determinants of demand for money.	04	CLO-1: PLO-1,2	Evaluating
1(b).	“Money creation is based on the process of deposits & loans and the RRR along with Bank Rate.” Do you support this statement? Why or why not? Present your answers on the basis of controlling money supply.	04		Creating
1(c).	Why does liquidity trap happen in money supply process?	02		Remembering
2(a).	Signify the use of quantity theory of money in applied macroeconomics.	03	CLO-1: PLO-1,2	understanding
2(b).	Simplify the dissimilarities between Irving Fisher’s and Keynes’ analyses on quantity theory of money.	03		Applying
2(c).	For Keynes, the speculative component of money demand was volatile. This made the demand for money and the money multiplier volatile, so that monetary policy became an unreliable tool for stabilization. What were Keynes’s reasons for his assertion on volatility?	04		Analyzing
3(a).	Signify the role of international flow of net capital outflow and prove that net capital outflow reflects the international flows of funds to finance capital accumulation.	02	CLO-3 PLO-4	Understanding
3(b).	If the real interest rate does not adjust to equilibrate saving and investment in this model, what <i>does</i> determine the real interest rate? Do you think that, starting from balanced trade, a change in fiscal policy that reduces national saving leads to a trade deficit? Why or why not?	05		Analyzing
3(c).	Critically evaluate the special case of purchasing power parity.	03		Evaluating
Or				
(a)	What are the determinants of real exchange rate?	02		Understanding
(b)	What happens to the real exchange rate if foreign governments increase government purchases or cut taxes? Do you think that an increase in investment demand has impact on the real exchange rate? Analyze your	04	CLO-3 PLO-4	Analyzing

answers from home country perspective.

(c)	Illustrate the protectionist trade policies that do not affect the trade balance but affect amount of trade. Do you agree with the statement that 'protectionist policies reduce both the quantity of imports and the quantity of exports'? Why or why not?	04		Evaluating
4(a).	Why is it said that the IS-LM model is standard one in analyzing macroeconomic policies?	02		Remembering
4(b).	Evaluate the impact of exogenous shocks on the endogenous variables of the IS-LM model.	03	CLO-4	Evaluating
4(c).	Define crowding out. Elucidate the effectiveness of changing government expenditure under crowding out situation.	05	PLO-4	Analyzing
Or				
(a).	Do you find any situation where fiscal policy is fully effective but monetary policy is fully ineffective? Why or why not?	02		Remembering
(b).	Evaluate the effects of policy mix in the context of tax reduction in Bangladesh	03	CLO-4	Evaluating
(c).	Graphically analyze the situation where policy mix works better. How does a nation reap the benefits of using policy mix in changing aggregate demand?	05	PLO-4	Analyzing
5(a).	International trade or foreign exchange situation among countries can be shown by Mundel-Fleming model. Analyze the effectiveness of expansionary fiscal policy and monetary policy under floating exchange rate. Why are the results opposite under fixed exchange rate?	04		Analyzing
5(b).	Explain the possible reasons of interest rate differentials between domestic and foreign rates of interest.	03	CLO-6	Applying
5(c).	Graphically evaluate the impact of increasing in risk premium. Is really where the economy ends up? Why or Why not?	03	PLO-5	Evaluating