

## Macroeconomics II

1. DSGE models are dynamic in nature because
  - (a) They involve intertemporal consumption choices
  - (b) They involve optimization
  - (c) They involve maximization
  - (d) They study the behavior of the representative agent at a given time

Ans: (a)

2. In DSGE models, the utility from consumption in the future, is
  - (a) Ignored
  - (b) Given a weight equal to current utility from consumption
  - (c) Discounted, such that the distant future consumption gets lesser weight
  - (d) Static

Ans: (c)

3. When the economy reaches Golden Rule level, the marginal product of labour is
  - (a) Equal to the rate of depreciation of capital
  - (b) Greater than the rate of depreciation of capital
  - (c) Less than the rate of depreciation of capital
  - (d) Increasing

Ans: (a)

4. The discount rate  $\beta$ , at which future utilities are discounted in a DSGE model, to derive the present value of life time utility is assumed to lie between
  - (a) 1 to  $\infty$
  - (b) 0 to 10
  - (c) 0 to 1
  - (d) 1 to -1

Ans: (c)

5. The consumption Euler equation is derived by maximizing the objective function which is the sum of
  - (a) Present value of lifetime utility and the resource constraints
  - (b) Future value of current utility and the resource constraints
  - (c) Present value of lifetime utility
  - (d) Current utility and the resource constraints

Ans: (b)

6. The consumption Euler equation can be written as
  - (a)  $U'(c_t) = \beta U(c_{t+1})[F'(k_{t+1}) + 1 - \delta]$
  - (b)  $U'(c_t) = \beta U(c_{t+1})[F'(k_{t+1}) + 1 - \delta]$
  - (c)  $U(c_t) = \beta U'(c_{t+1})[F'(k_{t+1}) + 1 - \delta]$
  - (d)  $U'(c_t) = \beta U'(c_{t+1})[F'(k_{t+1}) + 1 - \delta]$

Ans: (d)

7. At the long run equilibrium of the optimum solution, the marginal product of capital is equal to:

- (a)  $\delta + \theta$
- (b)  $\delta - \theta$
- (c)  $\delta \times \theta$
- (d)  $\delta / \theta$

Where  $\delta$  is the rate of depreciation of capital and  $\theta$  is related to the discount factor  $\beta$ .

Ans: (a)

8. Discounting the future utility from consumption results in

- (a) Rise in consumption
- (b) Fall in consumption
- (c) No change in consumption
- (d) Fall in investment

Ans: (b)

9. When there are two regions of stability and two regions of instability, the type of equilibrium is called as

- (a) Static equilibrium
- (b) Saddle path equilibrium
- (c) Stationary equilibrium
- (d) Disequilibrium

Ans: (b)

10. The consumption Euler equation helps us in deriving the

- (a) Aggregate Supply Function of the economy
- (b) Phillips curve of the economy
- (c) Aggregate Demand Function of the economy
- (d) Foreign trade of the economy

Ans (c)