

U-73

Entrance Examination, June 2010

M. Phil and Ph. D. (Economics)

Time: 2 Hours

Maximum Marks: 75

HALL TICKET NUMBER

INSTRUCTIONS:

1. **Read these instructions carefully before answering.**
2. **Enter your Hall Ticket Number on this page and also on the OMR answer sheet.**
3. **Answers are to be marked on the OMR answer sheet following the instructions provided there upon.**
4. **Handover both the question paper booklet and the OMR answer sheet at the end of the examination.**
5. **Use of non-programmable calculators is allowed.**
6. **The Question Paper has two parts – PART-A and PART-B. There are 75 questions in this paper: 25 questions in PART-A and 50 questions in PART-B. Marks obtained in PART-A will determine the merit rank in case of a tie in the total number of marks obtained.**
7. **Each correct answer carries one mark.**
8. **There is negative marking. Each wrong answer carries -0.33 marks.**
9. **This question paper contains 16 pages excluding the cover page.**

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University of Hyderabad
Department of Economics

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Part A (Answer all 25 Questions)

1. Two fair dice are thrown. Let event A be: 2 coming up on the first die, event B be 6 coming up on the second die and event C be number on the first die's number on the second die. Then,

- A. $P(C) > P(B) > P(A)$
- B. $P(C) > P(B) = P(A)$
- C. $P(C) < P(B) = P(A)$
- D. $P(C) = P(B) = P(A)$

Where $P(\cdot)$ is probability.

2. Although specially designed to handle over-identified equations, the 2SLS method can also be applied to exactly identified equations. In that case,

- A. the 2SLS will give multiple estimates of parameters in the model.
- B. the ILS and 2SLS methods will not give identical estimates.
- C. the ILS and 2SLS methods will give identical estimates.
- D. None of the above

3. Consider an economy which satisfies all conditions for existence of a competitive general equilibrium (CGE) except one, namely, one individual has a bliss point \underline{x}_k in her consumption set. Then

- A. CGE exists
- B. CGE can exist under certain circumstances
- C. CGE exists under decreasing returns to scale technologies
- D. CGE can not exist

4. Linder's demand hypothesis states that

- A. Internal demand determines potential exports
- B. external demand determines potential exports
- C. differences in cost determines exports
- D. differences in productivity determines exports

5. A market for first hand cars does not have an adverse selection problem as
- A. information is symmetric
 - B. information is asymmetrical
 - C. information is complete
 - D. none of the above
6. Suppose you are president and your advisors give you an econometric estimate of the output-inflation trade-off. To your surprise, when you try using this estimate to make policy, you find the actual tradeoff is larger. This situation is an example of
- A. the Lucas critique.
 - B. time inconsistency.
 - C. discretionary policy.
 - D. a political business cycle.
7. According to Akerlof, what constitutes the missing motivation in macroeconomics?
- A. Microfoundations
 - B. Macrofoundations
 - C. Behavioural Norms
 - D. Preferences and Tastes
8. According to Krugman, the main channel of transmission for the recent global economic crisis is:
- A. Balance sheets of highly leveraged financial institutions
 - B. Global trade flows
 - C. Traditional banking sector
 - D. Global labour flows
9. In Marxist Political Economy, if the rate of exploitation (s/v) and the organic composition of capital both rise, then the profit rate in the economy:
- A. Rises
 - B. Falls
 - C. Stays the Same
 - D. May rise or fall.
10. The transition from feudalism to capitalism is characterized by the following characteristic:
- A. Rise in Enclosures
 - B. Rise in Trade
 - C. Rise in Class Conflict
 - D. All of the Above

11. According to structuralists, free trade between industrial and poor countries leads
- A. widening of income inequalities
 - B. equalization of incomes
 - C. rise in the incomes of poor countries
 - D. none of the above
12. Given that all individuals in a society have well defined ordering over all alternative states, which of the following has a well defined ordinal social welfare function?
- A. Dictatorial rule
 - B. Majority rule
 - C. Pareto ranking rule
 - D. None of the above
13. The recent rise in Indian inequality are mainly accounted by:
- A. Rise in rural-urban gap, inter-state inequality and rise in intra-urban inequality
 - B. Rise in intra-rural inequality and rise in intra-urban inequality but fall in rural-urban gap.
 - C. Fall in intra-urban inequality but rise in rural-urban gap
 - D. Rise in rural-urban gap, rise in inter-state inequality but fall in intra-urban inequality
14. Recent agrarian distress in India is not caused by:
- A. Increase in Canal Irrigation
 - B. Rise in groundwater irrigation
 - C. Greater dependence on informal moneylenders
 - D. Falling TOT for agricultural commodities
15. An increase in Statutory Liquidity Ratio will result in
- A. An increase in Fiscal deficit
 - B. A decrease in fiscal deficit
 - C. No change in fiscal deficit
 - D. An decrease in Primary deficit
16. Prices are equal to values in the Marxian Framework when:
- A. Organic Composition of Capital is the same across industries
 - B. Rate of exploitation is the same across industries even though organic composition varies
 - C. Rate of Profit is the same across industries even though organic composition varies
 - D. When there is skill-biased technical change

17. Paul Krugman's theory of trade emphasizes on

- A. economies of scale
- B. quality of product
- C. cost of production
- D. technology

18. For Keynes, in General Theory, employment is determined by:

- A. The intersection of labour demand and labour supply
- B. Effective Demand or the intersection of the AD and AS
- C. The Quantity Theory of Money
- D. Natural Rate of unemployment

19. In the regression model $Q_t = \alpha + \beta L_t^3 + \delta K_t^2 + U_t$, the variable Q_t is

- A. linear both in terms of constant parameters and explanatory variables
- B. non-linear both in terms of parameters and explanatory variables
- C. non-linear in terms of parameters but linear in explanatory variables
- D. linear in terms of parameters but non-linear in explanatory variables

20. The problem of autocorrelation in econometrics is a problem related to

- A. the serial correlation among explanatory variables.
- B. the correlation between dependent variable and explanatory variables.
- C. the serial correlation in disturbance terms.
- D. the correlation between the explanatory variables and disturbance terms.

21. Indian economy is experiencing a structural transformation in the recent decades in terms of :

- A. Sectoral distribution of income but not employment
- B. Sectoral distribution of employment but not income
- C. Sectoral distribution of income as well employment
- D. Sectoral distribution of neither income nor employment

22. Note the relation $TSS = ESS + RSS$ where TSS is the total sum of squares, ESS is the explained sum of squares and RSS is the residual sum of squares. Which of the following statements is true?

- A. If $RSS = 0.0054$ and $ESS = 0.693$, then R^2 value is equal to 0.3016
- B. If $ESS = TSS$, then the R^2 value is exactly equal to one or 100%
- C. Both statements A and B are true.
- D. Neither A nor B is true.

23. Stolper-Samuelson theorem states that tariff on imports leads to distribution of income in favour of

- A. scarce factor
- B. abundant factor
- C. both scarce factor and abundant factor
- D. none of the above.

24. Gross fiscal deficit minus interest payments of government is equal to

- A. Revenue deficit
- B. Capital deficit
- C. Primary deficit
- D. Monetized deficit

25. Reforms by "stealth" were said to be introduced in the Indian economy since

- A. 1991
- B. 1984
- C. 1973
- D. 1963

Part B (Answer all 50 Questions)

26. Effective rate of protection takes into account

- A. tariff on final good
- B. tariff on intermediate good
- C. tariff on both final good and intermediate good
- D. none of the above

27. In case of customs union

- A. commodities move freely
- B. factors move freely
- C. both commodities & factors move freely
- D. none of the above

28. Convenience sampling is an example of

- A. probabilistic sampling
- B. stratified sampling
- C. non-probabilistic sampling
- D. cluster sampling

29. The number of random samples (without replacement) of size 3 that can be drawn from a population of size 5 is

- A. 15
- B. 10
- C. 20
- D. 125

30. Under which assumptions, the maximum likelihood (ML) and ordinary least squares (OLS) estimators of the intercept and slope coefficients of the regression model are identical ?

- A. Normality assumptions
- B. Classical linear regression model assumptions
- C. Two-tailed testing assumption
- D. All of the above

31. In hypothesis testing if the null hypothesis has been rejected when the alternative hypothesis has been true,

- A. a Type I error has been committed
- B. a Type II error has been committed
- C. either a Type I or Type II error has been committed
- D. the correct decision has been made

32. A household can buy X1 and X2 only. $P_2 = 1$. In situation A and B he behaves as follows

Situation	Income	P_1	X1 purchased
A	40	1	20
B	61	2	15

Is the consumer consistent?

- A. No
- B. Yes
- C. Need more information
- D. Maybe

33. The government is considering building an office block outside a householders back window. An economist proposes: "Ask him how much he would pay us not to build". Does this welfare measure represent

- A. Consumer Surplus
- B. Compensatory Variation
- C. Equivalent Variation
- D. none of the above

34. Does a profit-maximizing bundle exist for a technology that exhibits constant returns to scale as long as there is some point that yields positive profits.

- A. Yes
- B. No
- C. Need more information
- D. Can not say

35. Real-business-cycle theorists believe that fluctuations in output and employment are

- A. deviations of output and unemployment from their natural rate.
- B. caused by price stickiness.
- C. changes in the natural rate of output and unemployment.
- D. non-existent.

36. In contrast to Keynesian models, real-business-cycle models

- A. attach great importance to money.
- B. rely on market imperfections to generate their results.
- C. allow for involuntary unemployment.
- D. emphasize labor supply and the labor-leisure trade-off.

37. Metzler's Paradox refers to tariff on imports

- A. raises domestic price of imports
- B. raises domestic price of exports
- C. reduces domestic price of imports
- D. reduces domestic price of exports

38. The following statement is true about macroeconomic theory since 1930s until today:

- A. It oscillates between the positions - money is neutral and it is not
- B. It is stable in terms of its understanding of the role of money in the economy
- C. Money has been neutral and will always remain neutral
- D. Money has not been neutral and will never be neutral

39. Personal taxes in India best illustrates

- A Proportional tax system
- B progressive tax system
- C regressive Tax system
- D Indirect tax system

40. Neoclassical theory and Marxian theory would never agree on the following proposition:

- A. Competitive markets are efficient
- B. There are no economic profits in a state of competitive general equilibrium

- C. Workers produce more than what they are compensated for
D. B and C

41. The '2-t Rule of Thumb' can be applied if

- A. the number of degrees of freedom is 20 or more
B. the level of significance is set at 5 %
C. the null hypothesis is set to be equal to zero
D. All of the above are true

42. If the growth rate of a variable is estimated by using the semi-log linear econometric model of the form $\ln Y_t = \alpha + \beta t + U_t$ where Y is the variable under consideration, U is the error term and t is the time in year such that $t = 1, 2, 3, \dots, n$, then

- A. the slope coefficient β is known as the exponential growth rate
B. the annual compound growth rate (r) can be calculated from the estimated coefficient β
C. in any given sample, r tends to be slightly higher than β
D. All of the above

43. According to Planning Commission, the present poverty line is based on:

- A. 2400 calorie norm
B. Consumption Basket decided by the expert group in 1973-74
C. Minimum annual income of Rs.10, 000
D. One dollar a day income

44. According to the current trends in poverty statistics in India, which of the following statements is valid:

- A. There is a decline in head count ratio
B. There is a decline in poverty gap ratio
C. There is substantial malnutrition among women and children
D. All of the above

45. According to long term growth statistics of Indian economy during 1900-2000, the most important structural break is said to have occurred during:

- A. 1991
B. 1981
C. 1961
D. 1951

46. Secular deterioration in terms of trade hypothesis is based on

- A. Trade Matrix of UK
- B. Trade Matrix of US
- C. Trade Matrix of all industrial nations
- D. none of the above

47. In Marxist terms, the recent Indian experience with Special Economic Zones where farmers' lands are being acquired by the state or by private players would fall under the broad category of:

- A. Commodity Fetishism
- B. Exploitation
- C. Primitive Accumulation
- D. Dialectical Materialism

48. Walras law holds

- A. Equilibrium prices
- B. At any positive prices
- C. When all goods are non-free goods
- D. Only for economies with public goods

49. Long run confidence problem relates to

- A. gold standard
- B. Gold exchange standard
- C. floating exchange rates
- D. none of the above.

50. The following statement would be an example of commodity fetishism:

- A. People relate to each other as fellow human beings
- B. People relate to each other based on things that they possess not on their inner personalities
- C. Relations among commodities are dependent on their underlying social relations
- D. Relations among commodities are dependent on their exchange values

51. In Indian agriculture during the recent periods:

- A. There has been an increase in the aggregate as well as per capita availability in the foodgrain production
- B. There has been a decline in the aggregate as well as per capita availability in the foodgrain production
- C. There has been an increase in the aggregate but decline in per capita availability in the foodgrain production.
- D. There has been a decline in the aggregate as well as per capital availability in the foodgrain production

52. According to the 'decoupling thesis':

- A. Emerging economies are dependent on rest of the world growth
- B. Emerging economies have become autonomous of rest of the world growth
- C. Countries have to decoupled from the world trade
- D. None of the above.

53. According to FRBM Act 2003:

- A. The inflation has to be reduced to 3 percent
- B. The fiscal deficit has to be reduced to 3 percent
- C. The NPA have to reduced to 3 percent
- D. All of the above.

54. According to endogenous growth theory, a conditional convergence between growth rates of counties can occur, if differences in:

- A. physical capital disappear
- B. human capital disappear*
- C. savings rates disappear
- D. technology disappear

55. The following explanation in Marxian Political Economy is the cause for rapid technical change by capitalist firms:

- A. To increase Absolute Surplus Value
- B. To make Super Normal Profits
- C. To exploit nature to the hilt
- D. To achieve centralization

56. The idea of equalization of profit rates across industries over time is attributed to:

- A. Karl Marx
- B. David Ricardo
- C. Francois Quesnay
- D. Adam Smith

57. The Falling Rate of Profit in David Ricardo is attributed to the following trend:

- A. Rising Organic Composition of Capital
- B. Returns in agriculture keep declining as less fertile lands are cultivated
- C. Falling rate of exploitation over time
- D. Falling rents over time

58. According to the Mundell-Fleming model, an appreciation of the exchange rate would
- decrease both import demand and export demand.
 - increase import demand and decrease export demand.
 - decrease import demand and increase exports demand.
 - increase both import demand and export demand
59. Keynes argued that the long-term expectations of economic agents, especially in the area of investment, are determined by something like:
- Probability models
 - Rational Expectation models
 - Deterministic models
 - Animal Spirits
60. One of the following is called as paper gold
- US dollar
 - Pound sterling
 - SDRs
 - none of the above
61. Raw material in the Marxist Political Economy is characterized as:
- Variable Capital
 - Non-Capital
 - Constant Capital
 - Marginal Capital
62. In order to test the following hypotheses at α level of significance
 $H_0: \mu \leq 100$
 $H_a: \mu > 100$
 The null hypothesis will be rejected if the test statistic Z is
- $> Z\alpha$
 - $< Z\alpha$
 - $< -Z\alpha$
 - < 100
63. If a firm is producing where its $SMC = \text{price}$ and the LMC is less than LAC , then it would do better in the long run by
- increasing output with its existing plant until LMC equals price.
 - increasing plant size until LMC and SMC are identical and equal to price.
 - decreasing plant size until LAC , SAC , and price are equal.
 - doing nothing because it is already at the long-run profit maximizing point.

64. Garrett Hardin's 'Tragedy of the Commons' was effectively countered by the following Nobel recipient:

- A. Joseph Stiglitz in his work on information asymmetry
- B. Akerlof in his "market for lemons"
- C. Elinor Ostrom in her work on economic governance
- D. Paul Krugman in his work on spatial agglomerations

65. The reason why Indian economy was not badly hit by the global economic crisis is:

- A. Indian economy is better regulated than the American economy
- B. Indian economy does not have a very high X/GDP ratio
- C. Indian economy had not bought significantly into the American housing sector
- D. All of the above

66. It is argued that one solution to the problem of negative environmental externalities in an economy is to impose Pigouvian taxes or give subsidies to the polluting firm:

- A. The above statement is only partially correct since imposing taxes is effective
- B. The above statement is only partially correct since giving subsidies is effective
- C. The above statement is fully correct theoretically since imposing taxes and giving subsidies not to produce are construed as equivalent.
- D. The two solutions in the statement cannot be made equivalent to each other.

67. Let imports increase by Rs.100 crores. If tax receipts are stable and private savings are fixed, which of the following adjustments is consistent with maintaining macro economic equilibrium in an open economy?

- A. Holdings of bonds and money increase by Rs.100 crores each.
- B. Holdings of bonds increase by Rs.100 crores while holdings of money fall by an equal amount.
- C. Holdings of bonds increase by Rs.100 crores while money holdings do not change.
- D. Holdings of bonds and money both fall by Rs. 100 crores.

68. A trade union which wants to simultaneously raise wages for its members and maintain as much employment as possible would be helped by:

- A. An inelastic demand for the finished product
- B. An elastic demand for labour
- C. An elastic supply of labour
- D. A perfectly competitive labor and product markets

69. Which of the following is not consistent with Keynes' fundamental psychological law of consumption?

- A. Increases in aggregate income result in a decrease in APC
- B. There is a non-proportional relationship between consumption and income
- C. It is based on income
- D. The MPC out of transitory income is zero

70. Which of the following is correct with respect to the Paasche index?

- A. WPI is an example of the Paasche index
- B. Paasche index always exceeds 1
- C. Paasche index yields the same results as the Laspeyres index
- D. The Paasche index uses current quantities

71. How much will a speculator invest now if he/she expects to earn Rs. 144 two years from now assuming the nominal rate of interest is 20%?

- A. Rs. 94
- B. Rs. 288
- C. Rs. 68.50
- D. Rs. 100

72. Your vote is one in a million and the probability of it affecting the outcome of an election is negligibly small. The Rational Choice theory based on self-interest would predict:

- A. You would gather others like you to support your choice.
- B. Nobody would vote
- C. Everyone would vote
- D. You would form your own political party

73. What is true about post-1978 (post-Mao) China:

- A. Economic Growth has averaged more than 10%
- B. Inequality has increased by more than 50%
- C. China has become the manufacturing center of the world
- D. All of the above

74. The two most cited macroeconomists of the 20th century are:

- A. Keynes and Kahn
- B. Keynes and Friedman
- C. Keynes and Lucas
- D. Keynes and Prescott

75. According to the Harrod-Domar model, if the marginal Output-Capital ratio is 0.5, the savings rate is 0.2, and the ratio of foreign aid to GNP is 0.05, then the equilibrium growth rate of output is:

- A. 5
- B. 10
- C. 12.5
- D. 8.5