



Subject: Macro Economics

Chapter: Unit 3 & 4

**Category: Assignment
Questions**

1. The classical economists believed that
 - A. The Government should intervene in order to reach full employment.
 - B. Wages and salaries suffer from certain rigidities and would thus not move in a direction that would ensure full employment.
 - C. A competitive economy free of Government intervention would result in full employment.
 - D. An economy in equilibrium could also be an economy with high unemployment.

2. According to the Phillips curve, unemployment will return to the natural rate when:
 - A. Nominal wages are equal to expected wages
 - B. Real wages are back at long-run equilibrium level
 - C. Nominal wages are growing faster than inflation
 - D. Inflation is higher than growth of nominal wages

3. If the exchange rate is below the equilibrium level then in a floating exchange rate system:
 - A. There is excess demand and the exchange rate should fall.
 - B. There is excess supply and the exchange rate should fall.
 - C. There is excess demand and the exchange rate should rise.
 - D. There is excess supply and the exchange rate should rise

4. The IS curve illustrates that when real national income increases, the
- A. Interest rate must fall to restore equilibrium in the money market.
 - B. Interest rate must rise to restore equilibrium in the money market.
 - C. Interest rate must rise to restore equilibrium in the goods market.
 - D. Interest rate must fall to restore equilibrium in the goods market.
5. Suppose a central bank is concerned about inflation and wishes to raise interest rates. Which of the following instruments would it be inappropriate to use?
- A. Open market operations
 - B. Interest rate control
 - C. Reserve ratio controls
 - D. Quantitative easing
6. What is the main reason that led classical economists to believe that the Government need not respond to a demand shock which led to unemployment?
- A. Government always act very late
 - B. Demand shocks are always very small
 - C. Real wages are highly flexible
 - D. Economies never displayed demand-deficient unemployment

7. The Phillips Curve is a graphical depiction of the
- A. Positive relationship between inflation and output
 - B. Negative relationship between inflation and the output
 - C. Negative relationship between inflation and unemployment
 - D. Negative relationship between unemployment and output
8. India has run a trade deficit with Japan for some time. To eliminate this gap, it is necessary for the Rupee to _____ against the yen.
- A. Strengthen
 - B. Weaken
 - C. Compete
 - D. None of the above
9. One way of reducing the natural level of unemployment would be to increase:
- A. Unemployment benefit
 - B. Government consumption expenditure
 - C. Information on job availability
 - D. The money supply

10. If an increase in the level of the money supply results in no change in either the nominal or real value of national income, then which of the following is TRUE?

- A. Interest rates must have risen
- B. The velocity of circulation must have fallen
- C. The price level must have risen by the same proportion as the increase in the money supply
- D. Taxes must have risen

11. Which among these is a cost-push Inflation factor?

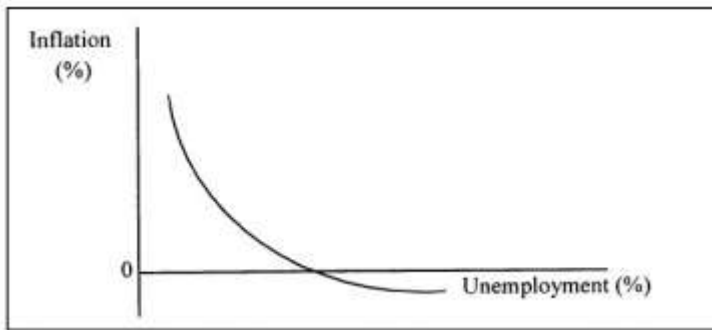
- A. Increase in public spending
- B. Increased velocity of circulation
- C. Income Tax reduction
- D. Imposition of Indirect Tax

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12. Foreign investment entails _____ change in the capital account of the country making the investment.

- A. Negative
- B. Positive
- C. No
- D. Uncertain

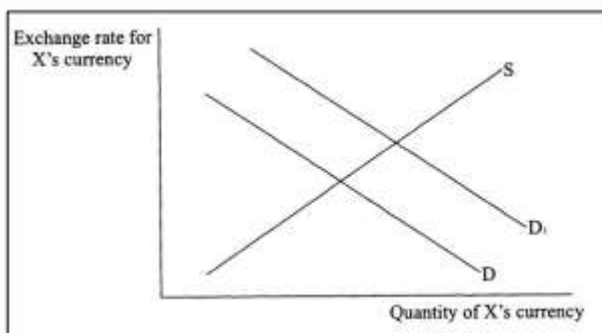
13. The diagram below shows a Philips curve



A diagram like this is generally used to show that

- A. It is impossible to reduce unemployment in long run.
- B. There is a "trade-off" between inflation and unemployment in the short run.
- C. Unemployment may be negative, but inflation is always positive.
- D. Higher levels of unemployment result in higher level of inflation.

14. The diagram below shows the demand for and supply of the currency X in international money markets



Other things remaining equal, a shift from D to D1 would be the result of

- A. A deficit in the current account of the balance of payments of Country X.
- B. An increase in Country X's Inflation.

- C. An inflow of foreign investment into country X.
- D. A reduction in Country X's Interest rates.

15. As a result of an economic policy change interest rates and consumption rise but investment falls. The new policy was:

- A. An expansionary fiscal policy.
- B. An expansionary monetary policy.
- C. A contractionary fiscal policy.
- D. A contractionary monetary policy.

16. Which of the following is not associated with Balance of Payment?

- A. Revenue Account
- B. Capital Account
- C. Current Account
- D. Unilateral transfers

17. A situation where there is no involuntary unemployment is called _____.

- A. Full employment
- B. Frictional unemployment
- C. Seasonal unemployment
- D. Unemployment

18. Select the incorrect statement.

- a. Money eliminates the problems of barter system.
- b. Money works as a factor of production

- c. Money plays a neutral role in the modern economy
- d. Money is used as a standard of deferred payments.

19. Katrina wants to purchase a gown for her birthday party. However, she also has to pay her life insurance premium in the same month. Which types of demands does she have for money?

- a. Precautionary and speculation
- b. Investment and Transaction
- c. Transaction and Precautionary
- d. Only transaction

20. The money that commercial banks supply is called _____

- a. Credit money
- b. Derivatives
- c. Commercial bonds
- d. Certificate of deposit

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21. High powered money is equal to _____

- a. Cash reserves only
- b. Cash reserves + Credit money
- c. Cash reserves + credit money + other deposits
- d. Credit money only

22. Which of the following is not an objective of RBI?

- a. Currency print and issue
- b. Banker to the government
- c. Debt manager to the government
- d. Fiscal stimulus to the economy

23. Which of the following is a direct instrument of Monetary Policy?

- a. Open Market Operations
- b. Moral suasion
- c. Bank rate
- d. Market stabilization scheme

24. Which of the following is not part of monetary policy action

- a. Discount rate
- b. Tax cuts
- c. Repurchase rate
- d. Reviewed corridor

25. Liquidity preference refers to

- a. The extent to which investors prefer to keep their assets in cash holdings
- b. People's preference to acquire gold
- c. Businesses acquiring capital assets
- d. RBI's share in various subsidiary companies

26. Which of the following is not true?

- a. Money is demanded because it works as a medium of exchange
- b. Supply of money depends in quantity of money and velocity of money
- c. Purchasing power of money is known as value of money
- d. Accumulating money for saving does not create demand for money

27. When general price level decreases, value of money ____

- e. Decreases

- f. Increases
- g. Stays the same
- h. Slightly falls

28. The monetary Policy committee was established in ____

- i. 2014
- j. 2015
- k. 2016
- l. 1991

29. What stance has the RBI taken during the pandemic period 2020-21 with regard to the interest rates?

- m. Non-accommodative
- n. Neutral
- o. Dovish
- p. Hawkish

30. Which one of the following is most likely to be the best method of reducing long term structural unemployment?

- A. Expansionary fiscal policy.
- B. Expansionary monetary policy.
- C. A reduction in trade union powers.
- D. Better education and training

31. A depreciation of Rupee in the foreign exchange market would cause the Indian exports' value in Rupees to:

- A. Rise while import values must fall.
- B. Fall while import values must rise.
- C. Rise while import value may rise or fall.
- D. Fall while import value may rise or fall.

32. Which of the following would NOT be included in the current account of a country's balance of payments?

- A. Property income from abroad.
- B. The purchase of shares in an Indian company by foreign investors.
- C. Interest and dividends paid to the rest of the world.
- D. Exports of services.

33. According to the accelerator principle investment expenditure will:

- A. Fluctuate more than consumer expenditure.
- B. Rise when the long term rate of interest falls.
- C. Accelerate if business confidence picks up.
- D. Accelerate if the government increases its capital expenditure.

34. Central Bank of TASIA has decided to intervene in the foreign exchange markets to prevent the home currency from appreciating. Post this decision TASIA's foreign exchange reserves will:

- A. Decrease and the domestic money supply rise.

- B. Decrease and the domestic money supply fall.
- C. Increase and the domestic money supply rise.
- D. Increase and the domestic money supply fall.

35. Which of the following is unlikely to result from devaluation of the TASIA currency on the foreign exchange market:

- A. Exports become less expensive when measured in the foreign currency.
- B. Imports become more expensive when measured in the domestic currency.
- C. Export values measured in the domestic currency will increase.
- D. Import volumes will increase

36. The overall money multiplier effect might be smaller than the full bank deposits multiplier because:

- A. Governments are pursuing an expansionary monetary policy.
- B. High rates of interest are discouraging borrowing.
- C. Banks are not holding excess cash reserves.
- D. All proceeds of loans are re-deposited with banks

37. Which of the following is NOT a market-orientated supply-side policy?

- A. Measures to reduce the power of trade unions
- B. Introduction of public-private partnerships
- C. Removal of barriers to trade and capital movements

D. Provision of infrastructure

38. Country A has decided to nationalise all banks to safeguard banking industry from increasing Non-Performing Assets. This is an example of

- A. Interventionist supply-side Policy
- B. Market-orientated supply-side Policy.
- C. Merger Policy
- D. Competition Policy

39. The Central Bank of certain countries, rather than focusing on the maintenance of both full employment and a low rate of inflation, use a special type of monetary policy that tries to keep inflation at a targeted rate. Explain the advantages and disadvantages of such Inflation targeting.

40. What are the factors affecting the demand for money?

41. i) Explain the term Exchange Rate Index.

ii) Equilibrium Exchange rate in the foreign exchange market is often unfavorable to less developed countries. Why?

42. Discuss the direct and indirect effects of a rise in interest rates on the fiscal deficit and the national debt.

43. i) Explain the effect on money supply for each of the following case:
- a) An increase in the public sector deficit financed by borrowing from the non bank private sector.
 - b) A decrease in the non bank private sector's holding of cash.
- ii) Explain the effect on demand for money for each of the following case:
- a) A fall in the nominal national income.
 - b) A fall in the expected value of the domestic currency.
44. i) Explain what IS and LM curves show. Use an IS-LM graph to explain how the equilibrium national income and the equilibrium level of interest rates is determined.
- ii) Discuss, with the aid of IS-LM graphs, the impact on interest rates and national income of an increase in the average price level.
- iii) Using the IS-LM diagram explain the effects of an expansionary fiscal policy financed by bond sales on the money supply, the long-term rate of interest and the level of national income
45. i) Fill in the missing figures from the balance of payments account for Country B given below:

	Credits (+), Debits (-)	\$m (2018)
	Current account	
1	Exports of goods	??
2	Imports of goods	-425
3	<i>Balance of trade in goods</i>	-40
4	Exports of services	165
5	Imports of services	-185
6	<i>Balance of trade in services</i>	??
7	Income receipts (investment income)	190
8	Income payments (investment income)	??
9	Net income receipts (investment income)	15
10	Current transfers (net)	-50
11	<i>Net income flows</i>	??
12	Current account balance	??
	Capital account	
13	Capital account transactions (net)	40
	Financial account	
14	Direct investment, net	65
15	Portfolio investment, net	-50
16	Reserve assets funding	20
17	Errors and omissions	20
18	Capital and financial account balance	??

ii) Explain how each of the following transactions will be classified and recorded in the debit and credit of the India's balance of payments:

- A Japanese insurance company purchases Indian Treasury bonds and pays out of its bank account in Mumbai.
- An Indian citizen consumes a meal at a restaurant in Paris and pays with her American Express card.

c) A Indian computer programmer is hired by a British company for consulting and gets paid from an Indian bank account maintained by the British company.

46. i) Explain the labour market model

ii) Define equilibrium and disequilibrium unemployment and state the reasons for the same

47. i) Explain why Government tries to avoid fluctuations in price of its domestic currency. How the Government can maintain its value in short and long term?

48. You are given the following data on Country E's international transactions for the year 2016 with the rest of the world (ROW):

Exports of goods and services (paid for in cash) 120

Imports of goods and services 140

Interest, profits, dividends and transfers received from ROW 30

Interest, profits, dividends and transfers paid to ROW 20

Export of goods on trade credit 40

Loans received from ROW 30

Statistical error ?

Decrease in official reserves 20

- i) Calculate the current account balance.
- ii) Calculate the capital account balance.
- iii) Calculate the value of the statistical error (make sure you clearly indicate whether it is positive or negative).
- iv) Does the country have a freely floating exchange rate? Explain your response.



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