INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Business economics – Macro

Chapter: Unit 4

Category: Practice question

1. CT7 April 2011 Q25

The Bank of England's use of the "Taylor Rule" attempts to take which of the following two macroeconomic objectives into account?

A. Inflation and the exchange rate
B. Economic growth and unemployment
C. Inflation and economic growth
D. Unemployment and the exchange rate

Answer – C

2. CT7 September 2011 Q14

Which of the following would constitute a supply side economic policy for reducing unemployment?

A. Increasing social security benefits.
B. Increasing the money supply.
C. Reducing corporate and personal taxation.
D. Increasing government expenditure aimed at exploiting the multiplier effect.

Answer – C

3. CT7 April 2012 Q20

Which of the following statements about the demand for money is FALSE?

A. The demand for money is negatively related to the interest rate.
B. The demand for money is positively related to the level of national income.
C. The demand for money is negatively related to the price level.
D. The demand for money can be divided into speculative, precautionary and transactions motives.

Answer – C

4. CT7 September 2012 Q20

According to Keynesian analysis, the adoption of an expansionary fiscal policy will result in:

A. an increase in aggregate demand and a reduction in real output and unemployment.
B. an increase in aggregate demand, real output and unemployment.
C. an increase in aggregate demand and real output and a reduction in unemployment.
D. a reduction in aggregate demand and real output and an increase in unemployment.

Answer – C

5. CT7 April 2014 Q19

Which of the following are the correct responses for the missing words (i) and (ii) in the following statement? Automatic stabilisers act to ___(i) ___ government expenditures and ___(ii)___ government revenues during an expansionary period.

A. (i) increase, (ii) decrease
B. (i) increase, (ii) increase
C. (i) decrease, (ii) increase
D. (i) decrease, (ii) decrease

Answer – C

A. small change in the rate of interest and the level of investment.
B. large change in the rate of interest and the level of investment.
C. small change in the rate of interest and a relatively large change in the level of investment.
D. large change in the rate of interest and a relatively small change in the level of investment.
Answer – A

7. CT7 September 2015 Q26
"Crowding out" describes the:

A. increase in consumption expenditure caused by lower taxes.
B. increase in interest rates caused by contractionary monetary policy.
C. extent to which government expansionary policy is counteracted by lower private spending resulting from higher interest rates.
D. extent to which government contractionary policy is counteracted by lower private spending resulting from lower interest rates.
Answer - C

8. CT7 April 2016 Q21
Which of the following would constitute a supply side economic policy for raising employment?

A. decreasing social security benefits
B. decreasing the money supply
C. increasing corporate and personal taxation
D. increasing government expenditure aimed at exploiting the multiplier effect
Answer – A

9. CT7 September 2016 Q23
Consider an economy where the demand for real money balances and the demand for investment are both highly interest elastic. A change in the money supply will give:

A. a relatively small change in both the rate of interest and the level of investment.
B. a relatively large change in both the rate of interest and the level of investment.
C. a relatively large change in the rate of interest and a relatively small change in the level of investment.
D. a relatively small change in the rate of interest and a relatively large change in the level of investment.
Answer – D

10. CT7 April 2017 Q26
A central bank's use of the "Taylor Rule" attempts to take which of the following two macroeconomic objectives into account?

A. inflation and the exchange rate
B. economic growth and unemployment
C. inflation and economic growth
D. unemployment and the exchange rate
Answer – C

11. CT7 September 2017 Q16
Which one of the following is NOT a "crowding out" effect resulting from a fiscal expansion?

D. a fall in demand for exports due to an exchange rate appreciation as a result of the associated rise in the interest rat

Answer – C

12. CT7 April 2018 Q23

As a result of a change in economic policy, interest rates and consumption rise but investment falls. The new policy is most likely to have been:

A. an expansionary fiscal policy.
B. an expansionary monetary policy.
C. a contractionary fiscal policy.
D. a contractionary monetary policy

Answer - A

13. CT7 September 2018 Q24

Which of the following is NOT a problem associated with the active management of fiscal policy?

A. Time lags.
B. Uncertainty.
C. Crowding out.
D. The accelerator

Answer - D

14. CB2 September 2019 Q23

In the event of a recession in the economy, automatic fiscal stabilisers:

A. raise government expenditure and reduce tax revenue.
B. raise government expenditure and raise tax revenue.
C. reduce government expenditure and raise tax revenue.
D. reduce government expenditure and reduce tax revenue.

Answer – A

15. CB2 April 2021 Q20

The 'crowding out' effect associated with an increase in government borrowing could be reduced or eliminated by an accommodating increase in:

A. government expenditure.
B. taxation.
C. money supply.
D. none of the above.

Answer – C

Long questions

1. CT7 April 2011 Q33

Identify and explain three functions of money.

2. CT7 April 2011 Q38

3. CT7 September 2012 Q33
The following data refers to a simple closed economy.
Money Supply = 200
Price Index = 10
Real Output (i.e. Real Income) = 100 units
Bank multiplier = 20%

Use the equation of exchange to determine the following with the above figures as your starting point in each of your calculations:
(i) the numerical value of the velocity of circulation.
(ii) the value of the price index if the money supply were to increase to 300.
(iii) the likely change in the money supply if there is an initial increase in bank deposits of 15.

4. CT7 September 2012 Q34
(i) Draw a diagram representing equilibrium in the money market showing both the real money supply (MS1) and real money demand (MD1) at an interest rate r1 that clears the money market.

(ii) Explain and show on your diagram how a reduction in the real money supply to MS2 would affect the market rate of interest in the short run.

5. CT7 April 2013 Q36
(i) Explain how an expansionary monetary policy and the associated low short term interest rates can be useful in expanding economic activity in an open economy.

(ii) Discuss the potential problems that may undermine the effectiveness of such a policy.

6. CT7 April 2015 Q37
(a) Discuss governments' use of discretionary fiscal policy in controlling substantial fluctuations in national income.
(b) Discuss the difficulty in predicting the effect of the policy.
(c) With the aid of a diagram, explain how time lags present an additional problem in using fiscal policy.

7. CT7 April 2016 Q32
(i) Describe what is meant by discretionary fiscal policy.
(ii) Assess why discretionary fiscal policy may not be effective in smoothing fluctuations in the business cycle.

8. CT7 April 2016 Q34
(i) Describe how a central bank conducts a contractionary monetary policy designed to slow down the economy, making clear the implications of the operation for the short term rate of interest.

Discuss the advantages, disadvantages and potential problems associated with using fiscal policy and monetary policy to boost economic activity in an open economy.

10. CT7 September 2018 Q35

(i) Describe TWO methods that can be used to control the money supply.

(ii) Show using a money market equilibrium diagram, the effect of an increase in the money supply

11. CB2 September 2020 Q32

(i) Describe what the LM curve represents.

(ii) Describe two factors that may shift the LM curve to the right in a closed economy

12. CB2 September 2020 Q34

Discuss the monetarist proposition that in the long run monetary policy can affect the inflation rate but not the unemployment rate.

13. CB2 April 2021 Q36

(i) (a) Explain how a central bank's 'unconventional monetary policy' of Quantitative Easing differs from a more traditional 'conventional monetary policy' of monetary expansion.

(b) Describe the likely short-term effects of the Quantitative Easing policy on the economy.

(ii) (a) Explain how a Quantitative Easing policy can be expected to influence the prices of differing financial securities in the financial markets, including the impact on government bonds, corporate bonds and equities.

(b) Comment on any problems for financial markets and the economy that a policy of Quantitative Easing may cause.

14. CB2 April 2022 Q32

(i) Describe what is meant by the crowding out effect of fiscal policy.

(ii) Explain four mechanisms through which crowding out can occur.

15. CB2 April 2022 Q33

Explain the problems governments face in using the monetary policy to raise or lower aggregate demand. Include reference to 'liquidity trap' in your answer.

16. CB2 April 2022 Q36

(i) Explain the main objectives of macroeconomic policy in an open economy, together with the reasons governments pursue these objectives.

(ii) Discuss the possible conflicts that the authorities may face when using monetary and fiscal policies to pursue the objectives outlined in part (i).

BUSINESS ECONOMICS – MACRO

PRACTICE QUESTION 4

components that make aggregate demand in the short run.

18. CB2 April 2023 Q36

(i) Explain, with reference to the distinction between anticipated and unanticipated inflation, the reasons why economic policy makers are concerned about the effects of unanticipated inflation.

(ii) Discuss how both fiscal and monetary policy can be used to control inflation and comment on any adverse implications for the broader economy of bringing inflation under control.