Eco - Assignment 2   Unit 3 & 4

1.) C
2.) A
3.) C
4.) D
5.) D
6.) D
7.) C
8.) A
9.) C
10.) A
11.) D
12.) A
13.) B
14.) C
15.) C
16.) D
17.) A
18.) C
19.) C
20.) A
21.) C
22.) D
23.) C
24.) B
25.) A
26.) B
27.) B
28.) C
29.) C
30.) D
31.) B
32.) B
33.) A
34.) C
35.) D
36.) B
37.) D
38.) A

Notes : ______________

Q39) To achieve an inflation target, central banks use monetary policy. If predicted inflation is higher than the target, they use contractionary policy to increase interest rates and lower aggregate demand.

Advantages

- It will lead to increased transparency and accountability
- Policy will be linked to medium/longer term goals but with some short term flexibility.
- It also helps in avoiding boom and bust cycles.

Disadvantages

- It puts too much weight on inflation relative to other goals. Central Banks start to ignore Mor Pressing problems like unemployment.
- Cost-push inflation may cause a temporary blip in inflation
- It cannot help remove supply bottlenecks and shortages.

Q40) Factors affecting the demand for money

1.) Interest Rates
2.) Consumer Spending
3) Precautionary Motives
4.) Transaction costs for Stocks and Bonds.
5.) Change in the General Level of Prices.
6) International factors.

Q44) A.

Notes :

Q45.) Exports = 385
Balance of trade in Services = -20
Income payments = -175
Net Income flows = -35
Current Account Balance = -95.
Capital and financial account balance = 95

Q48.) (i) 30m surplus.
(ii) 10m deficit.
iii) -40m
iv.) No, the country does not have a fully flexible exchange rate.