Question Paper
Business Economics – II (MB1B4): October 2008

> **Answer all 77 questions.**
>
> **Marks are indicated against each question.**

Total Marks : 100

1. Other things remaining constant, if there is an increase in the cost of producing output, it results in <Answer>

    (a) Increase in the price level and decrease in real output
    (b) Increase in the price level and real output
    (c) Increase in the price level and no effect upon real output
    (d) Decrease in the price level and increase in real output
    (e) Decrease in the price level and no change in the real output. (1 mark)

2. A forest worker, who is out of work in recession, because of low demand for wood, is said to be <Answer>

    (a) Frictionally unemployed
    (b) Cyclically unemployed
    (c) Structurally unemployed
    (d) Disguised unemployed
    (e) Underemployed. (1 mark)

3. If the multiplier is 4 and the government wants to increase the level of income by Rs.30 billion, it should increase government spending by <Answer>

    (a) Rs. 4.0 billion
    (b) Rs. 5.0 billion
    (c) Rs. 7.5 billion
    (d) Rs. 30.0 billion
    (e) Rs.120.0 billion. (1 mark)

4. Which of the following policies would a Keynesian economist favor to generate the largest increase in national income? <Answer>

    (a) A decrease in tax rate
    (b) An increase in the tax rate
    (c) An increase in transfer payments
    (d) An increase in government spending
    (e) An increase in money supply. (1 mark)

5. Money deposited for a term is not left in bank vaults but is loaned out by the banks (subject to minimum cash reserve requirements). This means that a dollar on deposit can flow back into the banking system one or more times and that dollar can expand the money supply. This is best described by <Answer>

    (a) The Investment multiplier
    (b) The money multiplier
    (c) Required reserve ratio
    (d) Open market operations
    (e) Moral suasion. (1 mark)

6. The difference between Gross National Product and Gross Domestic Product is <Answer>

    (a) The value of inventories accumulated during the year
    (b) Depreciation
    (c) Net factor income from abroad
    (d) Indirect taxes
    (e) Direct taxes. (1 mark)

7. GDP of a country is 8,500 MUC. Value of output produced in the economy by foreign factors of production is 200 MUC and value of the output produced by domestic factors of production in foreign countries is 100 MUC. GNP of the country is <Answer>

    (a) 8,600 MUC
    (b) 7,700 MUC
    (c) 7,900 MUC
    (d) 8,400 MUC
    (e) 8,700 MUC. (2 marks)

8. Which of the following schools of thought emphasized the importance of monetary policy in bringing macroeconomic stability? <Answer>

    (a) Classical economist
    (b) Keynesian economist
    (c) Monetarist
    (d) Neo classical economist
    (e) Supply side economist. (1 mark)

9. Which of the following is **not** a selective credit control method adopted by Reserve Bank of India? <Answer>

    (a) Rationing of credit
    (b) Direct action
    (c) Bank rate
    (d) Changes in margin requirements
    (e) Moral suasion. (1 mark)

10. Which of the following factor(s) is/are contributed to the growth of public expenditure in India? <Answer>

    I. Increase in price level.
    II. Development of basic infrastructure.
    III. Population growth.

    (a) Only (I) above
    (b) Only (II) above
    (c) Both (I) and (II) above
    (d) Both (I) and (III) above
    (e) All (I), (II) and (III) above. (1 mark)

11. Which of the following statements is **true**?

(a) Inflation increases the purchasing power of money
(b) During inflationary periods, people are discouraged to hoard
(c) High inflationary situation encourages entrepreneur from taking the risks involved in investing for future production
(d) Inflation does not affect the pattern of production
(e) Debtors gain from inflation. (1   mark)

<Answer>

12. Which of the following is an asset of Reserve Bank of India?

(a) Credit to Government
(b) Contingencies reserve
(c) Government deposits
(d) Paid-up capital
(e) Notes in circulation. (1   mark)

<Answer>

13. According to the classical theory, saving and investment determine

(a) The price level
(b) Unemployment
(c) The supply of money
(d) Interest rates
(e) The demand for money. (1   mark)

<Answer>

14. The following information is extracted from the National Income Accounts of an economy for the year 2008:

Particulars	Rs. crore
GNP at factor cost	2,40,000
Depreciation	20,000
Subsidies	14,000
Net factor income from abroad	10,000
Indirect taxes	36,000

What is the GNP at market prices?

(a) Rs.2,60,000 crore
(b) Rs.2,62,000 crore
(c) Rs.2,72,000 crore
(d) Rs.2,76,000 crore
(e) Rs.2,78,000 crore. (2   marks)

<Answer>

15. Which of the following is/are **not** included in market transaction?

I.   Production not reaching the market.
II. Wages paid in kind to maidservant for the services done by her.
III. Value of housework done by housewives.

(a) Only (I) above
(b) Only (II) above
(c) Both (I) and (II) above
(d) Both (I) and (III) above
(e) All (I), (II) and (III) above. (1   mark)

<Answer>

16. Who among the following favor an active role for government in promoting low inflation and economic growth?

(a) Only Keynesians
(b) Only Monetarists
(c) New Classical economists
(d) Monetarists and Keynesians
(e) Monetarist and Supply side economist. (1   mark)

<Answer>

17. Which of the following is **not** studied in Macro economics?

(a) Gross domestic product
(b) The inflation rate
(c) The unemployment rate
(d) Aggregate industrial production
(e) The price of Nokia cell phone. (1   mark)

<Answer>

18. An increase in net taxes or a decrease in government spending which lead to a decrease in aggregate output is termed as

(a) A contractionary fiscal policy
(b) A contractionary monetary policy
(c) An expansionary fiscal policy
(d) An expansionary monetary policy
(e) A discretionary monetary policy. (1   mark)

<Answer>

19. In the current year, a country with a deficit in its current account having insufficient foreign exchange reserves,

(a) Exports more goods and services than its imports
(b) Is running a deficit in its capital account
(c) Is a net lender to the rest of the world
(d) Is a net borrower from the rest of the world
(e) Always has a balanced capital account. (1   mark)

<Answer>

20. The position of the short run Philips curve depends on

(a) Expected rate of output growth
(b) Expected rate of money supply growth
(c) Expected rate of inflation
(d) Expected rate of interest rate
(e) Expected rate of growth of nominal income. (1   mark)

21. Which of the following is a consequence of a reduction in the required reserve ratio? <Answer>

(a) Decrease in the credit creation and decrease in the money supply
(b) An increase in the credit creation and decrease in the money supply
(c) An increase in the credit creation and increase in the money supply
(d) Decrease in credit creation and increase in the money supply
(e) The money supply remains unaffected. (1 mark)

22. Discretionary fiscal policy refers to <Answer>

(a) Government spending at the discretion of Parliament
(b) Government spending at the discretion of the President
(c) Elements of fiscal policy that routinely change in value as national income changes
(d) Deliberate changes in government spending and taxation aimed at achieving an economic development
(e) Changes in government spending and taxation aimed at achieving the monetary policy objectives. (1 mark)

23. Inflation is the increase in the general _____, which is sustained over a period of time. <Answer>

(a) Price level
(b) Money supply
(c) Unemployment
(d) Investment
(e) Production. (1 mark)

24. Which of the following is/are the core objectives of macroeconomic policy? <Answer>

I. High level of output.
II. Full employment.
III. Price stability.

(a) Only (I) above
(b) Only (II) above
(c) Only (III) above
(d) Both (I) and (II) above
(e) All (I), (II) and (III) above. (1 mark)

25. A country's _____ is a systematic record of all economic transactions between that country and the rest of the world. <Answer>

(a) Government annual budget
(b) Balance of trade
(c) Balance of payments
(d) Current account balance
(e) Capital account balance. (1 mark)

26. Which of the following affects aggregate demand indirectly? <Answer>

(a) Investment
(b) Net exports
(c) Government spending
(d) Taxes
(e) Consumption. (1 mark)

27. Which of the following ensure full employment and full capacity output in the classical model? <Answer>

(a) Flexibility in prices and wages
(b) Flexibility in prices and interest rate
(c) Flexibility in prices and investment
(d) Flexibility in prices and export
(e) Flexibility in prices and money supply. (1 mark)

28. If the reserve ratio increases, the value of money multiplier will <Answer>

(a) Increase
(b) Decrease
(c) First increase then decrease
(d) Remain constant
(e) Become zero. (1 mark)

29. According to the Keynesian model, <Answer>

(a) Aggregate supply varies positively with exchange rate
(b) Aggregate supply curve is upward sloping
(c) Involuntary unemployment cannot exist
(d) Nominal and real wages are perfectly flexible
(e) Aggregate supply curve is vertical. (1 mark)

30. The sum of the balances in the merchandise, services, investment income, and unilateral transfers is called <Answer>

(a) Capital account
(b) Current account
(c) Exports account
(d) Error and omissions
(e) Official reserve account. (1 mark)

31. Which of the following is classified as cost-push factors of inflation? <Answer>

(a) Pressure of growing population
(b) Hike in international prices of crude oil
(c) Tax evasion by assesses
(d) Changes in Government spending
(e) Increase in supply of money. (1 mark)

32. If output is increasing and unemployment is decreasing, the economy must be experiencing

<Answer>

- (a) Contraction
- (b) Depression
- (c) Hyperinflation
- (d) Boom
- (e) Stagflation. (1 mark)

33. Cash reserve ratio refers to

<Answer>

- (a) The amount of money commercial banks have to keep as reserve with the Government
- (b) Amount of money commercial banks have to keep as reserves with other commercial banks
- (c) Amount of money commercial banks have to keep as reserves with the Central bank
- (d) Amount of money the central banks have to keep as reserves with the commercial banks
- (e) Amount of deposits kept with commercial banks by the public. (1 mark)

34. Which of the following is an example of an indirect tax?

<Answer>

- (a) Wealth tax
- (b) Income tax
- (c) Estate duty
- (d) Excise duty
- (e) Gift tax. (1 mark)

35. Which of the following is/are tariff barrier(s) to protect domestic industries from competition?

<Answer>

I. Ad valorem duties.
II. Specific duties.
III. Compound duties.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (III) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above. (1 mark)

36. To increase the money supply, the Reserve Bank of India would

<Answer>

- (a) Increase the reserve requirement and the discount rate, and sell bonds
- (b) Increase the reserve requirement and the discount rate, and buy bonds
- (c) Decrease the reserve requirement and the discount rate, and sell bonds
- (d) Decrease the reserve requirement and the discount rate, and buy bonds
- (e) Keep the reserve requirement constant. (1 mark)

37. Which of the following is/are general economic indicator(s)?

<Answer>

I. GDP.
II. Inflation.
III. Interest rates.

- (a) Only (I) above
- (b) Only (II) above
- (c) Both (I) and (II) above
- (d) Both (II) and (III) above
- (e) All (I), (II) and (III) above. (1 mark)

38. Other things remaining constant, if the anticipated rate of inflation rises, we would expect the nominal interest rate to

<Answer>

- (a) Remain unchanged
- (b) Decrease by the same amount as the increase in the anticipated rate of inflation
- (c) Increase, but by less than the anticipated increase in the rate of inflation
- (d) Increase by the same amount as the increase in the anticipated rate of inflation
- (e) Increase, but by more than the anticipated increase in the rate of inflation. (1 mark)

39. Which of the following is an example of expansionary fiscal policy?

<Answer>

- (a) A decrease in infrastructural expenditure
- (b) A purchase of government securities in the open market
- (c) A decrease in the required reserve ratio
- (d) A decrease in expenditure on education
- (e) A decrease in the corporate profit taxes. (1 mark)

40. Which of the following **does not** affect the balance sheet of Reserve Bank of India?

<Answer>

- (a) Central government's borrowings from RBI
- (b) Loan taken by one commercial bank from the other commercial bank
- (c) Refinancing of NABARD loans
- (d) Increase in reserves of commercial banks
- (e) Increase in net foreign exchange assets. (1 mark)

41. The relationship between aggregate savings (S) and income (Y) is known as the

<Answer>

- (a) Consumption function
- (b) Saving function
- (c) Aggregate supply function
- (d) Aggregate demand function
- (e) Income function. (1 mark)

42. During a recession

<Answer>

- (a) Output and profits fall
- (b) Output and profits rise
- (c) Output rises, profits fall
- (d) Output falls, profits rise
- (e) Output and profits remain same. (1 mark)

43. In a hypothetical economy, the high-powered money is 2,000 MUC and the money supply is 6,000MUC. Currency deposit ratio is estimated to be 0.2. The Central Bank sells government securities worth 500 MUC in the open market. Even after the open market sale, if the Central Bank wants to maintain the money supply at the same level, the reserve ratio should be

<Answer>

- (a) 0.20%
- (b) 1.00%
- (c) 3.00%
- (d) 10.00%
- (e) 30.00%. (2 marks)

44. Which of the following ratios is **not** an indicator of financial development of a country?

<Answer>

- (a) Finance Ratio
- (b) Financial Interrelations Ratio
- (c) New Issue Ratio
- (d) Intermediation Ratio
- (e) Cost Benefit Ratio. (1 mark)

45. The following balances are taken from the balance sheet of the Central Bank of a country.

<Answer>

Particulars	MUC
Financial Assets	24,000
Other Assets	100
Net worth	1,000
Other non-monetary liabilities	525

The amount of Government money is 125 MUC. The high-powered money in the economy would be

- (a) 22,600 MUC
- (b) 22,700 MUC
- (c) 20,000 MUC
- (d) 21,500 MUC
- (e) 19,500 MUC. (2 marks)

46. The period in the business cycle from a trough to peak is called

<Answer>

- (a) Recession
- (b) Slump
- (c) Depression
- (d) Expansion
- (e) Stagflation. (1 mark)

47. The phrase "Business cycle" refers to the pattern of fluctuations in

<Answer>

- (a) The general level of prices as measured by the consumer price index
- (b) Interest rate as measured by the prime lending rate
- (c) Economic activity
- (d) Budget surplus or deficit
- (e) Stock market index. (1 mark)

48. In which of the following cases, people expect the price to increase and spend their money quickly so that they could consume to the maximum extent possible?

<Answer>

- (a) Creeping inflation
- (b) Running inflation
- (c) Galloping inflation
- (d) Deflation
- (e) Stagflation. (1 mark)

49. Which of the following is a regional grouping of countries that levies common external duties on imports from nonmember countries, but which eliminates tariffs, quotas and other miscellaneous government restrictions on trade among member countries?

<Answer>

- (a) Free trade area
- (b) Custom union
- (c) Common market
- (d) Economic union
- (e) Political union. (1 mark)

50. The following data is taken from National Income Accounts of a country:

<Answer>

Particulars	Rs. in cr.
National Income	1,377
Transfer payments	302
Undistributed corporate profits	28
Corporate tax	75

Personal income in the country is

- (a) Rs.1,463 cr.
- (b) Rs.1,121 cr.
- (c) Rs.1,230 cr.
- (d) Rs.1,576 cr.
- (e) Rs.1,496 cr. (2 marks)

51. The personal income of an individual is Rs.20,000. If the income tax paid is Rs.1,275, consumption expenditure is Rs.5,000, interest payments on loans are Rs.200 and savings amount to Rs.800, the disposable income of the individual is

<Answer>

- (a) Rs.12,000
- (b) Rs.10,400
- (c) Rs. 9,600
- (d) Rs.18,725
- (e) Rs.19,625. (2 marks)

52. The following information is taken from the National Income accounts of a hypothetical economy:

Particulars	MUC
Consumption	3,000
National Income	5,000
Investment	600
Government expenditure	400

Net exports for the economy will amount to

(a) 1,000 MUC
(b) 1,400 MUC
(c) 5,000 MUC
(d) 600 MUC
(e) 800 MUC.   (2   marks)

53. In an economy, the high-powered money and money supply are 5,700 MUC and 22,800 MUC respectively. If the reserve ratio is 10%, currency deposit ratio for the economy is

(a) 0.12
(b) 0.18
(c) 0.20
(d) 0.27
(e) 0.30.   (2   marks)

54. Consider the following information pertaining to the year 2008:

Particulars	Rs. in crore
GNP at factor cost	2,10,000
Indirect Taxes	30,000
NDP at market prices	2,60,000
NNP at market prices	2,75,000
GNP at market prices	2,80,000

The net factor income from abroad is

(a) Rs.10,000 crore
(b) Rs.15,000 crore
(c) Rs.35,000 crore
(d) Rs.50,000 crore
(e) Rs.55,000 crore.   (2   marks)

55. The following information is extracted from National Income Accounts of a country:

Particulars	Million Units of Currency (MUC)
NDP at market prices	33,878
Net factor income abroad	112
Depreciation	1,800
Subsidies	708
Indirect taxes	4,272

The national income of the economy will be

(a) 30,242 MUC
(b) 31,020 MUC
(c) 29,567 MUC
(d) 28,770 MUC
(e) 30,426 MUC.   (2   marks)

56. In a two-sector economy, the savings function is estimated to be $S = -20 + 0.30Y_d$.

If the equilibrium output is 800 MUC, the level of investment in the economy is

(a) 140 MUC
(b) 150 MUC
(c) 160 MUC
(d) 220 MUC
(e) 260 MUC.   (2   marks)

57. In a two-sector economy the consumption function, $C = 5 + 0.6Y$ and autonomous investment is equal to 5 MUC. The equilibrium level of income in the economy is

(a) 25 MUC
(b) 30 MUC
(c) 50 MUC
(d) 75 MUC
(e) 150 MUC.   (2   marks)

58. The following data pertains to National Income aggregates of a hypothetical economy:

Consumption function (C) $= 200 + 0.80Y$, where Y is income
Investment (I)   = 500 MUC
Government spending   (G)   = 200 MUC

The equilibrium level of income is

(a) 1,640 MUC
(b) 4,500 MUC
(c) 4,200 MUC
(d) 4,300 MUC
(e) 4,400 MUC.   (2   marks)

<Answer>

59. Consider the following information:

Disposable income (Rs.)	Consumption (Rs.)
2,000	2,700
4,500	4,100
7,000	5,500
9,500	6,900
12,000	8,300

What is the marginal propensity to save?

(a) 0.15
(b) 0.20
(c) 0.40
(d) 0.44
(e) 0.75. (2   marks)

<Answer>

60. The consumption function for an economy is given as

$C = 2,000 + 0.80Y_d$.

The level of disposable income at which the consumption is equal to disposable income is

(a) 2,000 MUC
(b) 3,000 MUC
(c) 4,000 MUC
(d) 5,000 MUC
(e) 10,000 MUC. (2   marks)

<Answer>

61. If the real GDP is 5% and the inflation rate is 3%, the nominal GDP is

(a) 2%
(b) 5%
(c) 7%
(d) 8%
(e) 12%. (1   mark)

<Answer>

62. The following are the indicators of financial development of an economy for the year 2008:

Finance Ratio	0.25
Intermediation Ratio	0.70

If the Net Physical Capital Formation and the new issues for the year 2008 are 40,000 MUC and 30,000 MUC respectively, the financial interrelation ratio is

(a) 1.275
(b) 1.484
(c) 2.434
(d) 0.680
(e) 0.784. (2   marks)

<Answer>

63. The monetary liabilities of the Central Bank of an economy are 20,000 MUC. The government money in the economy is 200 MUC. Currency deposit ratio for the economy is estimated to be 0.2 and reserve ratio imposed by the Central Bank is 5 percent. If foreign exchange reserves of the country decline by 300 MUC, the money supply would

(a) Decline by 960 MUC
(b) Increase by 960 MUC
(c) Decline by 1,440 MUC
(d) Increase by 1,440 MUC
(e) Decline by 480 MUC. (2   marks)

<Answer>

64. The capital inflows and outflows in an economy during the year 2008 are 6,800 MUC and 4,386 MUC respectively. Suppose there is no change in the official foreign reserve assets held by the Central Bank, what could be the current account balance for the economy?

(a) 2,414 MUC (Surplus)
(b) 2,414 MUC (Deficit)
(c) 11,186 MUC (Surplus)
(d) 11,186 MUC (Deficit)
(e) Zero. (2   marks)

<Answer>

65. The following information relates to an economy.

Particulars	Rs. in crore
Consumption	4,000
Investment	1,360
Government expenditure	1,120

If the velocity of money is 5, money supply in the economy is

(a) Rs. 1,296 crore
(b) Rs. 2,450 crore
(c) Rs. 2,650 crore
(d) Rs. 4,050 crore
(e) Rs. 4,875 crore. (2   marks)

<Answer>

66. Consumption function for an economy is estimated to be

$C = 2,500 + 0.50 Y_d$

Which of the following is **true** if Y_d is zero?

(a) Savings are zero
(b) Savings are Rs.2,500
(c) Dissavings are Rs.2,500
(d) Consumption is zero
(e) Income must be greater than taxes. (1   mark)

67. Consider the following information:

High powered money	Rs. 5,100 cr.
Currency deposit ratio in the economy	10%
Cash reserve requirement of the central bank	6%

The money multiplier is

(a) 6.875
(b) 7.330
(c) 5.000
(d) 10.000
(e) 15.000.   (2   marks)

<Answer>

68. The following information is available from balance of payments of an economy:

Particulars	MUC
Trade balance	−5,000
Current account balance	−3,000
Capital account balance	7,000

The foreign exchange reserves of the country will

(a) Increase by 4,000 MUC
(b) Decrease by 4,000 MUC
(c) Decrease by 3,000 MUC
(d) Increase by 3,000 MUC
(e) Remain unchanged.   (2   marks)

<Answer>

69. Which of the following is **not** considered as investment?

(a) The production of bicycles
(b) The purchase of Government bonds
(c) The construction of a mall
(d) The establishment of an IT Park
(e) The purchase of capital goods.   (1   mark)

<Answer>

70. The growth in a country's capital stock depends on current and future _____.

(a) Government spending
(b) Technology
(c) Savings
(d) Natural resources
(e) Taxes.   (1   mark)

<Answer>

71. The ultimate goal of monetary policy is to achieve

(a) Economic growth with stable prices
(b) Stable interest rates
(c) A low bank rate
(d) Steady growth in bank reserves
(e) Low unemployment rate.   (1   mark)

<Answer>

72. The 'Investment multiplier' explains the change in national product due to change in

(a) Consumption expenditure
(b) Investment expenditure
(c) Government expenditure
(d) Export
(e) Import.   (1   mark)

<Answer>

73. Which of the following is **true** for a classical aggregate supply curve?

(a) It is horizontal
(b) It is positively related to real output
(c) It is negatively related to real output
(d) It is unrelated to price level
(e) It is rectangular hyperbola.   (1   mark)

<Answer>

74. Which of the following variables will be at low level during boom phase of a business cycle?

(a) Employment
(b) Wage rates
(c) Bank credit
(d) Inventory
(e) Cost of production.   (1   mark)

<Answer>

75. Large borrowings by government to finance its deficit will

(a) Increase the supply of loanable funds
(b) Exert downward pressure on interest rates
(c) Have no impact on interest rates
(d) Put upward pressure on interest rates
(e) Make it easier for the commercial sector to borrow money.   (1   mark)

<Answer>

76. Balance of payments of a country for the year 2008 is given below:

Particulars	MUC
Merchandise imports	25,000
Merchandise exports	18,000
Software exports	16,000
Software imports	12,000
Earnings on loans and investments abroad	400
Earnings on loans and investments in the country by foreigners	1,000
Private remittances to abroad	200
Private remittances from abroad	150
Government loans to abroad	30
Government loans from abroad	20
Direct investments abroad	10
Foreign direct investment in the country	150
Short-term loans and investments abroad	200
Foreign short-term loans and investments in the country	40

The balance of trade (BoT) for the year 2008 is

(a) 7,000 MUC (deficit)
(b) 7,000 MUC (surplus)
(c) 2,000 MUC (surplus)
(d) 2,000 MUC (deficit)
(e) 1,950 MUC (surplus). (2 marks)

<Answer>

77. The following information is available from the consolidated balance sheet of the banking sector:

Particulars	Rs. billion
Net Bank Credit to the Government	2,000
Bank Credit to the Commercial Sector	3,000
Net Foreign Exchange Assets of the Banking Sector	2,200
Net Non-Monetary Liabilities of the Banking Sector	1,200
Government Currency Liabilities to the Public	500

Money supply in the economy is

(a) Rs. 200 billion
(b) Rs.6,200 billion
(c) Rs.6,500 billion
(d) Rs.7,400 billion
(e) Rs.7,600 billion. (2 marks)

END OF QUESTION PAPER

Suggested Answers
Business Economics – II (MB1B4): October 2008

	Answer	Reason	
1.	A	Other thing remaining constant, if there is an increase in the cost of producing output, it results in Increase in the price level and decrease in real output.	< TOP >
2.	B	A forest worker who is out of work because of low demand for wood is said to be cyclically unemployed.	< TOP >
3.	C	If the multiplier is 4 and the government wants to increase the level of income by Rs.30 billion, it should increase government spending by 30/4 = Rs.7.5 billion.	< TOP >
4.	D	Keynesian economist favor an increase in government spending because it will result in more aggregate income than investment executed due to multiplier effect.	< TOP >
5.	B	A dollar on deposit can flow back into the banking system one or more times and that dollar can expand the money supply. This is best described by the money multiplier.	< TOP >
6.	C	The difference between Gross National Product and Gross Domestic Product is Net factor income from abroad.	< TOP >
7.	D	GNP = GDP + NFIA NFIA = Factor income received from abroad – Factor income paid abroad. = $100 - 200 = -100$ GNP = $8500 - 100 = 8,400$ MUC.	< TOP >
8.	C	Monetarist emphasized the importance of monetary policy in bringing macroeconomic stability.	< TOP >
9.	C	Bank rate is not a selective credit control method rather it is a quantitative credit control method.	< TOP >
10.	E	Increase in price level, basic infrastructure and population growth are contributed to the growth of public expenditure in India.	< TOP >
11.	E	Debtors gain from inflation because inflation reduces the real worth of money that they must repay in the future.	< TOP >
12.	A	Credit to Government is an asset of Reserve Bank of India.	< TOP >
13.	D	In the Classical Theory, saving and investment determine interest rates. Interest rate is determined at the equilibrium point of saving and investment. As the saving increases interest rate decreases and vice versa. Similarly, there is direct relationship between investment and interest rates.	< TOP >
14.	B	GNP at market prices = GNP at factor cost + Indirect taxes – Subsidies = $2,40,000 + 36,000 - 14,000 =$ Rs. 2,62,000 Cr.	< TOP >

15.	D	Non-market production refers to the value of the final product that fails to reach the market, as a result of which does not involve any transaction.	< TOP >

15. D Non-market production refers to the value of the final product that fails to reach the market, as a result of which does not involve any transaction. <TOP>

I. Production not reaching the market is nothing but the output that is not exchanged in the market, it is also referred to as non-market production. Hence is part of non-market production.

II. As said in above reason given in I, wages paid in kind to maid servant are nothing but the services are bought in the market and it is a non monetary transaction. Hence it is part of market production and not non market production.

III. Services of house wife are not produced for the market and hence are not part of market production but are part of non-market production.

16. A Only Keynesians favor an active role for government in promoting low inflation and economic growth. <TOP>

17. E The price of Nokia cell phone. is a study of microeconomics. It is not studied in macroeconomics. <TOP>

18. A An increase in net taxes or a decrease in government spending which lead to decrease in aggregate output is termed as a contractionary fiscal policy. <TOP>

19. D A country with a deficit in its current account is a net borrower from the rest of the world. <TOP>

20. C Philips curve shows the trade off between inflation and unemployment. The position of the short run Philips curve depends on the expected rate of inflation. Hence, (c) is the answer. <TOP>

21. C When the reserve ratio is reduced, the money supply increases by the money multiplier given by M = 1 + Cu / Cu + r,
where Cu : currency-reserve ratio,
r : reserve-requirement ratio.
A reduction in the reserve ratio will thus tend to increase the money supply, which will enable the banks to increase the loans. <TOP>

22. D Discretionary fiscal policy refers to deliberate changes in government spending and taxation aimed at achieving an economic development <TOP>

23. A Inflation is the increase in the general price level which is sustained over a period of time. <TOP>

24. E High level of output, Full employment and Price stability are the core objectives of macroeconomic policy. <TOP>

25. C A country's balance of payments is a systematic record of all economic transactions between that country and the rest of the world. <TOP>

26. D Taxes affect aggregate demand only indirectly. When there is a change in taxes, it will change the consumption, investment and government expenditures, which in turn lead to change in the aggregate demand in the economy. <TOP>

27. A Flexibility in prices and wages ensure full employment and full capacity output in the classical model. <TOP>

28. B The money multiplier is given by 1 + Cu / Cu +r when the reserve ratio goes up, the money multiplier decreases.
where Cu : currency-reserve ratio,
r : reserve-requirement ratio. <TOP>

29. B According to the Keynesian model aggregate supply curve is upward sloping. <TOP>

30. B The sum of the balances in the merchandise, services, investment income, and unilateral transfers accounts is called current account. <TOP>

31. B Option (b) is classified as cost-push factor of inflation. Options (a), (c), (d) and (e) are classified as demand-pull factors of inflation. <TOP>

32. D If output is increasing and unemployment is decreasing, the economy must be in a boom. <TOP>

33. C Cash reserve ratio refers to the amount of money commercial banks have to keep as reserves with the central banks. <TOP>

34. D Excise duty is an indirect tax. An indirect tax is imposed on one person but paid wholly or partly by another person. <TOP>

35. E Ad valorem duties, specific duties and compound duties are tariff barriers to protect domestic industries from competition. <TOP>

36. D To increase the money supply, the Reserve Bank of India would decrease the reserve requirement and the discount rate, and buy bonds. When the reserve requirement decreases, the banks have more money in their hands. It leads to increase in the money supply. <TOP>

37. E GDP, Inflation and Interest rates are general economic indicators. <TOP>

38. D Other things constant, if the anticipated rate of inflation rises, we would expect the nominal interest rate to rise by the same amount as the increase in the anticipated rate of inflation. <TOP>

39. E A decrease in the corporate profit taxes is an example of expansionary fiscal policy. When there is a decrease in corporate profit taxes, it results in an increase in the profit of business sector. Hence it leads to more expansion of the private investment. <TOP>

40. B The balance sheet of Reserve Bank of India contains particulars of Bank's current assets and liabilities. <TOP>

(a) Is not the answer because Central government's borrowings from RBI constitutes assets of RBI. It will affect the balance sheet.

(b) Is the answer because loan taken by one commercial bank from the other is a inter bank loan. It will not affect the balance sheet of the Reserve Bank of India. It is neither a liability nor an asset to the RBI.

(c) Is not the answer because refinancing of NABARD loans constitutes assets of RBI.

(d) Is not the answer because increase in reserves of commercial banks increases the liabilities of RBI.

(e) Is not the answer because increase in net foreign exchange assets increases the assets of RBI.

41. B The relationship between aggregate savings(s) and income (Y) is known as the Saving function. <TOP>

42. A During recessions output and profits fall. <TOP>

43. D Money supply (Ms) = High-powered money (H) x {(1 + Cu)/(Cu + r)}
6000 = (2000 - 500) {(1 + 0.2)/(0.2 + r)}
Or, r = 10%. <TOP>

44. E A well-developed financial system is vital for the smooth functioning of an economy. The financial development ratios such as Finance Ratio, Financial Interrelation Ratio, New Issues Ratio and Intermediation Ratio are indicators of financial development of a country. <TOP>

(a) Is not the answer because Finance Ratio is an indicator of financial development of a country.

(b) Is not the answer because Financial Interrelation Ratio is an indicator of financial development of a country.

(c) Is not the answer because New Issues Ratio is an indicator of financial development of a country.

(d) Is not the answer because Intermediation Ratio is an indicator of financial development of a country.

(e) Is the answer because Cost Benefit Ratio is not an indicator of financial development of a country.

| 45. | B | High powered money | = | Monetary Liabilities of RBI + Government Money | < TOP > |

High powered money = Monetary Liabilities of RBI + Government Money

Monetary liabilities of RBI = Financial Assets + Other Assets − Non-monetary liabilities

Non-monetary liabilities = Other non-monetary liabilities + Net worth

= 525 + 1,000 = 1,525 MUC

Monetary liabilities = 24,000 + 100 − 1525 = 22,575 MUC

Government money = 125 MUC

High powered money (H) = 22,575 + 125 = 22,700 MUC

46. **D** The period in the business cycle from a trough to peak is called as expansion. < TOP >

47. **C** Business cycle is the fluctuation in the level of economic activity which forms a regular pattern < TOP >

48. **C** In Galloping inflation, people expect the price to increase and spend their money quickly so that they could consume to the maximum extent possible. < TOP >

49. **C** Common market is a regional grouping of countries that levies common external duties on imports from nonmember countries, but which eliminates tariffs, quotas and other miscellaneous government restrictions on trade among member countries < TOP >

50. **D** Personal Income = National Income − Undistributed corporate profit − corporate tax + Transfer payments < TOP >

Personal Income = 1,377 − 28 − 75 + 302 = Rs.1,576 cr.

51. **D** Disposable income = personal income − personal taxes = 20,000 − 1,275= Rs.18,725. < TOP >

52. **A** Net exports = Y − C − I −G = 5000 − (3,000 + 600 + 400) = 1,000 MUC < TOP >

53. **C** Money supply = High Powered money × Money multiplier < TOP >

22,800 = 5,700 m, where m= Money multiplier.

where Cu : currency-reserve ratio,

r : reserve-requirement ratio.

or, m =

or, 1+ Cu = 4Cu + 0.40

or, − 3Cu = −0.6

or, Cu = 0.20

54. **B** Net factor income from abroad = NNP at market prices − NDP at market prices < TOP >

= 275000 − 260000 = Rs.15,000 Cr

55. **E** National income = NNP at factor cost < TOP >

= NDP at factor cost + Net income from abroad

NDP at market prices − indirect taxes + subsidies + net factor income from abroad

33878 − 4272 + 708 + 112 = 30,426 MUC.

56. **D** Savings function $S = -20 + 0.30Y_d$ < TOP >

At equilibrium, S = I.

At Y=800, S = −20 + 0.30(800) = − 20 + 240 = 220 MUC.

So, the level of investment in the economy is 220 MUC.

57. **A** C = 5 + 0.6Y < TOP >

Then, S = −5 + 0.4Y

At equilibrium,

S =I

−5 + 0.4Y = 5

0.4Y=10

Y =25 MUC

58. **B** Y = 200 + 0.80Y+500+200 < TOP >

Y = 900 + 0.8Y

0.2Y = 900

Y = 4,500MUC.

59. **D** Income (Y) = Consumption(C) + Savings(S) < TOP >

Change in Income (Y) = Change in Consumption (C) + Change in Savings(S)

Dividing both sides by Y we get

Change in Income (Y)/ Change in Income (Y)/ = Change in Consumption (C)/ Change in Income (Y)/ + Change in Savings(S)/ Change in Income (Y)

Where C/ Y = MPC

Where S/ Y = MPS

MPC+MPS=1

MPC = = 0.56

MPS = 1−MPC = 1 − 0.56 = 0.44

| 60. | E | Consumption function $= 2000 + 0.80Y_d$ | < TOP > |

When $C = Y_d$

$Y_d - 0.80\, Y_d = 2000$

$Y_d = 10,000\,MUC.$

< TOP >

61. D If the real GDP is 5% and the inflation rate is 3%, it means that nominal GDP must be 8% Nominal GDP = real GDP + inflation is a good approximation.

< TOP >

62. A Intermediation Ratio = Secondary issues/New issues

Or, secondary issues = Intermediation ratio x New issues = 0.7   30,000 = 21,000 MUC

Total issues = New issues + Secondary issues = 30,000 + 21000 = 51,000 MUC

Financial Interrelations Ratio = Total issues/Net Physical Capital Formation (NPCF)

$= 51000 / 40000 = 1.275$

< TOP >

63. C Ms = High-powered money x $\{(1 + Cu)/(Cu + r)\}$; where High powered money = monetary liabilities of the central bank + government money.

$Ms = H.m$

where m= Money multiplier.

Where Cu : currency-reserve ratio,

r : reserve-requirement ratio.

$M= \qquad 1.20 /0.25 = 4.80$

When foreign exchange reserves of the country decline by Rs.300 MUC, the monetary liabilities also fall by 300 MUC. Thus, money supply decline by 4.8 x 300 =1,440 MUC.

64. A Capital inflows – capital outflows = 6,800– 4,386 = 2,414 MUC (Surplus).

< TOP >

65. A

< TOP >

Velocity of money   =

Total expenditure   = $C + I + G = 4000+1360+1120 = 6,480$

Money supply   =   6480/5= Rs1,296 cr.

66. C If Yd is zero, consumption is Rs. 2,500, which is autonomous consumption. This consumption is financed by dissavings or borrowing. Hence dissavings are Rs.2,500.

< TOP >

67. A Money multiplier = where Cu : currency-reserve ratio,

r : reserve-requirement ratio.

$= \qquad = 6.875$

< TOP >

68. A Change in foreign exchange reserves = Current account balance + Capital account balance $= -3000 + 7000 = 4000$ MUC.

So, the foreign exchange reserves of the country will increase by 4,000 MUC.

< TOP >

69. B The purchase of government bonds is not considered investment. Because it is a transfer of ownership from one to another.

< TOP >

70. C The growth in a country's capital stock depends on current and future savings.

< TOP >

71. A The ultimate goal of monetary policy is to achieve economic growth with stable prices.

< TOP >

72. B The 'investment multiplier' explains the change in national product due to change in investment expenditure.

< TOP >

73. D According to classical economist, aggregate supply curve is a vertical straight line. Hence it is unrelated to the price level.

< TOP >

74. D (a)   During a boom bank reserves will be high as the bank credit is high to support the increased economic activity

(b)   Wage rate will be high as demand for labor increase during the boom phase

(c)   As the economic activity increase during the boom bank credit also increases

(d)   During a boom demand increased at a faster rate and inventories tend to be low. All other variables tend to increase during a boom.

(e)   Cost of production will be high as demand for factors of production will be relatively high during the boom phase.

< TOP >

75. D Keeping the supply of loanable funds at the same level increase in government borrowings increase the demand for loanable funds and put upward pressure on the rate of interest.

< TOP >

76. A Balance of Trade (BoT) = Merchandise exports – Merchandise imports

$= 18,000 - 25,000 = -7,000$ MUC i.e. deficit of 7,000 MUC.

< TOP >

77. C Money Supply = Net bank credit to Government + Bank credit to commercial sector + Net foreign exchange assets of the banking sector – Net non-monetary liabilities of the banking sector +Government money =   2000+3000+2200-1200+500 = Rs.6,500 billion.

< TOP >

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