TYBA – Semester VI - Microeconomics – III

Objectives Question Bank

<u>Module 1 – The Goods Market in the Open Economy</u>

Q. State whether the following statements are true or false. (1 Mark each)

1. Openness in goods market is the economy buys and sells goods and services in the world product markets. – True
2. Exports are goods and services that are produced abroad and sold domestically. – False
3. Net exports of any country are the difference between the value of its exports and the value of its imports. – True
4. The net imports of a country are also known as the country's trade balance. – False
5. Net Capital Outflow = Purchase of foreign assets by domestic residents – Purchase of domestic assets by foreigners. – True
6. A country's saving and investments are important to its long run economic growth. – True
7. National saving is the income of the nation that is left after paying for current consumption and government purchases. – True
8. When country's saving exceeds its domestic investment, its net capital outflow is negative. – False
9. Real and nominal exchange rates are closely related to each other. – True
10. In fixed exchange rate policy monetary policy is ineffective. – True

Q. Select the correct answer from the following. (1 Mark each)

1. In _________ market consumers and firms can select between domestic commodities and foreign commodities. (**Goods** / Financial / Factor)
2. If net exports are positive, country's exports are _________than imports. (Lesser /**greater**/ equal)
3. When the net capital outflow is negative, domestic residents are buying _______foreign assets than foreigners are buying domestic assets. (More/ equal / **less**)
4. Y = C + I + G + _________. (MX/ **NX** / RX)
5. In surplus trade, Savings are __________investments. (**Greater than** / Equal to / Less than)
6. Imports are depending on the _______exchange rate. (**Real** / nominal / fixed)
7. Investment expenditure of a country is depending on level of income and ________. (Taxes / **Interest rate** / consumption)
8. In fixed exchange rate policy, the domestic interest rate must be _______foreign interest rate. (More than / **equal to** / less than)

Module 2 – Money/Financial Markets and Mundell-Fleming Model

Q. State whether the following statements are true or false. (1 Mark each)

1. The IS curve describes equilibrium in the goods market. – True
2. The LM curve slopes downward from left to right. – False
3. The demand for real money balances depends on the level of real income and the interest rate. – True
4. Investments and output are directly related. – True
5. The interest rate is determined by demand for money and supply of money. – True
6. According to Mundell- Fleming model, internal balance refers to equilibrium in balance of payments.- False
7. Expenditure changing policies are only related with monetary policy. – False
8. Contractionary fiscal policy refers to a reduction in government expenditure and increase in taxes. – True

Q. Select the correct answer from the following. (1 Mark each)

1. The IS curve slopes __________from left to right. (Upward/ **downward/** horizontal)
2. The LM curve describes equilibrium in the ___________ market. (Goods / factor / **money**)
3. The Mundell- Fleming model model portrays the relationship between________exchange rate and economy's output. (Real / **nominal** / fixed)
4. The ______curve shows the value of real interest rate that clears the asset market for any given value of output. (IS / **LM** / BP)
5. Supply of money of the country is controlled by _______bank. (**Central** / commercial / Cooperative)
6. For the determination of interest rate in the basic IS-LM model, supply of money should be ________ demand for money. (Greater than / **Equal to** / less than)
7. In contractionary monetary policy, interest rates_________. (**Increases**/ decreases/ remains constant)
8. __________ diagram helps to determine the appropriate policy mix to reach internal and external balance. (IS/ LM/ **Swan**)

Module 3 – Exchange Rate regimes and Exchange Rate Crisis

Q. State whether the following statements are true or false. (1 Mark each)

1. Exchange rate is the rate at which the currency of a country is exchanged against the currency of another country. - True
2. Under flexible exchange rate system, exchange rate was fixed in terms of gold contents of member country's currency. – False
3. Fixed exchange rate promotes international trade and investments. – True
4. Flexible exchange rate does not permit independent internal policies to the countries. – False
5. Free float exchange rate is determined with market forces like demand and supply without any government intervention. – True
6. Flexible exchange rate ensures equilibrium in balance of payments of the countries. - True
7. In exchange rate crisis, exchange rate depreciates widely. – True
8. Poor financial system is necessary to control exchange rate crisis. - False

Q. Select the correct answer from the following. (1 Mark each)

1. A __________currency is a widely accepted currency in international market. (Transport/ **Vehicle** / golden)
2. ________ exchange rate promotes international cooperation. (**Fixed** / Flexible / Managed flexible)
3. Irrational speculation leads to ________ effect in international market. (Snob appeal/**Bandwagon**/ negative)
4. __________exchange rate does not react quickly to market forces. (Flexible/ **Fixed** / Forward)
5. Most of the developing countries have now opted ________exchange rate. (Fixed / Flexible/ **Managed Float**)
6. Huge _______term foreign debt leads to exchange rate crisis. (**Short** / Medium/ Long)
7. Management of ________exchange rate helps to control foreign exchange crisis. (Spot/forward/**foreign**)
8. The Asian countries suffered from exchange rate crisis in the year _______. (1991/ 1995/**1997**)

Module - 4 International Monetary History, 1900 - Present

Q. State whether the following statements are true or false. (1 Mark each)

1. Gold standard as an international monetary system originated in 1819 in Great Britain. – True
2. The gold standard was abandoned during the World War I. – True
3. Due to World War I, economic depression started in USA in 1925. – False
4. Under Bretton Woods System, the US dollar accepted as an international reserve currency. – True
5. The objective of Exchange Rate Mechanism (ERM) was to reduce exchange rate variability and to achieve monetary stability. - True
6. The Maastricht treaty was signed on 7th February 1990. – False
7. Monetary measures were not crucial to tackle global financial crisis. – False
8. Asian Infrastructure Investment Bank (AIIB) was formerly known as BRICS development Bank. - false

Q. Select the correct answer from the following. (1 Mark each)

1. The United States of America adopted the gold standard in the year ________. (**1879** /1880/1884)
2. In World War I, ________was worst sufferer. (India / USA /**Germany**)
3. The Maastricht Treaty was formerly known as European _________. (Council /Community / **Union**)
4. The global financial crisis started in _________. (Great Britain/ **USA**/ UAE)
5. The Asian Infrastructure Investment Bank (AIIB) was established in ______. (2012//2014/ **2015**)
6. __________is the current president of AIIB. (D.J.Pandian/ Martin Kimming/ **J.N.Liqun**)
7. ___________bank was formerly known as BRICS Development Bank. (**New Development bank**/ World Bank /Asian Development Bank)
8. The headquarters of New Development Bank is in ________. (Germany/ Russia / **China**)

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