SHETH T.J. EDUCATION SOCIETY'S

SHETH NKTT COLLEGE OF COMMERCE AND SHETH JTT COLLEGE OF ARTS, THANE

S. Y. B. A. – Semester -IV

Multiple Choice Questions of Macroeconomics (Based on 2019-20 syllabus)

Module -1 -Money

1. Traditional measure of money supply includes ____
   a. Demand deposits and time deposits
   b. Currency and time deposits
   c. Currency and demand deposits
   d. None of these
2. The main authors of broad money are
   a. Marshall, J M Keynes, A C Pigou
   b. Gurley-shaw, Milton Friedman, Radcliff committee
   c. Paul Krugman, Irving fisher, Robertson
   d. None of these
3. The value of money multiplier is determined by
   a. Currency deposit ratio and time deposits
   b. Currency deposit ratio and coins and notes
   c. Currency deposit ratio and reserve ratio
   d. None of these
4. The Radcliff committee suggested that money supply should include
   a. Liabilities of NBFIs
   b. Time deposits
   c. Funds lent by financial institutions
   d. None of these
5. The broader measure of money supply adopted by the RBI is referred to as
   a. Aggregate monetary resources
   b. Aggregate monetary measurements
   c. Aggregate money supply
   d. Aggregate monetary ratios
6. The aggregate number of times a unit of money is used for making payments for final goods and services is known as

a. Transaction velocity
b. Monetary velocity
c. Income velocity
d. Growth velocity

7. The money multiplier is measured as

a. mm= 1+r/1+k
b. mm= 1+r/r+k
c. mm= 1+k/1+r
d. mm= 1+k/r+k

8. Which of the following determines money supply
a. High powered money
b. Money multiplier
c. Community's choice
d. All of the above
9. Which of the following is not true of excess reserves held by commercial banks
a. Banks statutorily hold them
b. They are determined by clearing drain and currency drain
c. They are voluntarily held by banks
d. They influence the money multiplier
10. Which of the following represents Fisher's equation
a. MV=PT
b. M= kPY
c. V=M/P
d. P=M/kT
11. In Fisher's equation, which of the following is exogenously determined
a. P
b. T
c. V
d. M
12. ____ first developed the Cambridge version of the quantity theory of money
a. Adam Smith
b. J S Mill
c. Alfred Marshall
d. David Ricardo
13. Cambridge 'k' represents
a. Velocity of circulation of money
b. Money supply
c. Average price
d. A proportion of real income held as cash balances
14. Which of the following is not true of the Cambridge version of quantity theory of money
a. Considers store of value function of money
b. Considers only transaction motive for holding money
c. Considers k as a constant
d. Considers M to be exogenously determined
15. The quantity of money supply is determined by
a. Demand and supply of money
b. Capital market
c. Money market
d. Monetary authority
16. When money supply is viewed at a point of time, it is a
    a. Stock of money
    b. Flow concept
    c. Liquid concept
    d. None of the above

17. When money supply is viewed over a period of time, it is a
    a. Stock of money
    b. Flow concept
    c. Liquid concept
    d. Solid concept

18. The traditional approach of money supply is expressed as

a. C+DD+OD
b. C+DD
c. C+OD
d. None of the above

19. The Cash Reserve Ratio is determined by

a. Commercial banks
b. The IMF
c. The central bank of a country
d. The WTO

20. Deficit financing always leads to ____ the money supply
    a. Increase in
    b. Reduction in
    c. No impact
    d. None of the above

21. Money supply is determined by ____
    a. Monetary base
    b. Community's choice
    c. Cash reserve ratio
    d. All of the above

22. The value of money multiplier is determined by____

a. Currency deposit ratio and time deposit
b. Currency deposit ratio only
c. Currency deposit ratio and reserve ratio
d. None of the above

23. Money supply will increase when there is ____

a. Increase in CRR and SLR
b. Decrease in CRR and SLR
c. A surplus budget
d. A rise in public debt

24. High powered money includes____

a. Money with public and central bank
b. Currency with public, cash reserves and other deposits with central bank
c. Deposits with commercial banks
d. None of these

25. Broad money includes

a. Currencies and demand deposit
b. Bonds, government securities
c. Equity shares
d. All of the above

Module- 2- The Money-Market

1. The inverse relationship between the rate of interest and bond prices is due to
    a. High opportunity cost of holding money
    b. Constant money supply
    c. Inflation
    d. All of these
2. Transactions demand for money is explained by
    a. Neo-classical economists
    b. Classical economists
    c. Post-Keynesian economists
    d. None of the above
3. Transaction motive is further sub-divided into
    a. Speculative and precautionary
    b. Profit and business
    c. Income and business
    d. None of the above
4. Demand for speculative motive is referred to as demand for
    a. Active cash balance
    b. Idle cash balance
    c. Both active and idle cash balance
    d. None of these
5. Demand for transaction and precautionary motive is interest
    a. Elastic
    b. Inelastic
    c. Unit elastic
    d. None of these
6. According to Friedman, households demand money to have command over
    a. Property
    b. Real goods and services
    c. Future interest income
    d. None of these
7. Which of the following is not true of liquidity trap
    a. It is a condition that takes place at a very low rate of interest
    b. An increase in money supply would not affect the rate of interest
    c. It represents perfectly elastic demand for liquidity
    d. People prefer bonds instead of cash
8. The inverse relationship between the rate of interest and bond prices is due to
    e. High opportunity coast of holding money
    f. Constant money supply
    g. Inflation
    h. All of these
9. Transaction motive of liquidity preference is
    a. Interest elastic
    b. Income inelastic
    c. Interest inelastic
    d. None of these

10. Precautionary demand for liquidity is determined by
    a. Rate of interest
    b. Rate of inflation
    c. Bond prices
    d. Income
11. At a very low rate of interest liquidity preference curve becomes
    a. Perfectly inelastic
    b. Perfectly elastic
    c. Relatively inelastic
    d. Relatively inelastic
12. When Liquidity preference curve shifts downward, with no change in the Money supply curve
    a. Rate of interest will fall
    b. Rate of interest will rise
    c. Rate of interest will remain constant
    d. Rate of interest will become zero
13. A rise in the interest rate can take place due to
    a. A downward shift in Liquidity preference curve, with no change in money supply
    b. An upward shift in Liquidity preference curve, with no change in money supply
    c. An increase in money supply with no change in Liquidity preference
    d. None of the above
14. LM curve will shift to the right due to ____
    a. increase in money supply
    b. decrease in money supply
    c. increase in rate of interest
    d. decrease in government expenditure
15. In ____ case LM curve is horizontal
    a. Classical case
    b. Crowding out case
    c. Liquidity trap
    d. None of the above
16. The LM curve will shift down when the ____
    a. Nominal money supply declines
    b. Price level rises
    c. Expected inflation declines
    d. Real money demand declines
17. Keynes's hypothesized that the transactions component of money demand was primarily determined by the level of ____
    a. Income
    b. Velocity
    c. Interest rates
    d. Stock market prices
18. The transactions demand for money is ____
    a. Interest – elastic
    b. Income- elastic

c. Income-inelastic
d. None of the above

19. ____ is an important factor determining the precautionary demand for money.
    a. The uncertainty about future
    b. The uncertainty about present
    c. The certainty about future
    d. Both a and b
20. Speculative demand for money is said to be
    a. Interest – elastic
    b. Income- elastic
    c. Interest-inelastic
    d. None of the above
21. Keynes's liquidity preference theory indicates that the demand for money is ____
    a. Constant
    b. Negatively related to bond values
    c. Positively related to interest rates
    d. negatively related to interest rates
22. The Keynesian theory of money demand predicts that people will increase their money holdings if they believe that____
    a. Expected inflation is about to fall
    b. Bond prices are about to rise
    c. Bond prices are about to fall
    d. None of the above
23. The LM curve represents the equilibrium in the ____
    a. Goods market
    b. Money market
    c. Labour market
    d. foreign market
24. The LM curve shifts downwards when the
    a. Nominal money supply declines
    b. Price level rises
    c. Expected inflation declines
    d. Real money demand declines
25. Monetary policy operates through shifts in
    a. Demand curve
    b. Supply curve
    c. IS curve
    d. LM curve

<u>Module -3- The Goods Market</u>

1. Investment will be in equilibrium when ____ becomes equal to given current rate of interest.
    a. MEC
    b. Profit
    c. Savings
    d. None of the above

2. MEC curve ____
    a. Slopes upwards
    b. Slopes downwards
    c. Remain constant
    d. Does not change
3. MEC refers to what type of return from an investment
    a. Expected rate of return
    b. Actual profit
    c. Expected rate of interest
    d. None of the above
4. MPC is always ____
    a. Positive but less than one
    b. Positive but greater than one
    c. Equal to one
    d. None of these
5. When income increases consumption will increase in a ____ proportion.

a. Greater
b. Lesser
c. Constant
d. None of these

6. Investment will be in equilibrium when ____ becomes equal to the given current rate of interest

a. Marginal efficiency of capital
b. Profits
c. Savings
d. None of these

7. Marginal efficiency of capital refers to the ____ of a capital assets.

a. Expected rate of interest
b. Expected rate of profit
c. Both a and b
d. None of these
    a. IS curve
    b. AD curve
    c. LM curve
    d. AS curve

8. On which side of the following curve is excess supply in the goods market
    a. Right side of IS Curve
    b. Left side of IS Curve
    c. Right side of LM Curve
    d. Left side of IS Curve
9. ____ of the following is the slope of the IS curve
    a. Positive
    b. Negative
    c. Direct
    d. None of the above
10. ____ will shift IS curve to the left

    a. increase in government expenditure
    b. Decrease in government expenditure
    c. increase in autonomous spending
    d. none of these

11. The IS curve shows the combinations of output and the real interest rate for which ____
    a. The goods market is in equilibrium
    b. The labour market is in equilibrium
    c. Both a and b
    d. The financial asset market is in equilibrium
12. Which of the following will cause the IS curve to shift to the left
    a. Increase in government expenditure
    b. Decrease in government expenditure
    c. Increase in money supply
    d. None of these
13. Saving function shows the relationship between
    a. Income and consumption
    b. Income and investment
    c. Income and savings
    d. None of these
14. Average propensity to save= ____
    a. S/Y
    b. 1-APC
    c. 1-C/Y
    d. All of these
15. Marginal propensity to save is the counterpart of ____
    a. MPC
    b. APC
    c. APS
    d. All of these
16. When income is equal to consumption, savings will be ____

a. Positive
b. Negative
c. Zero
d. Infinity

17. MEC is influenced by____

a. supply price
b. Prospective yield
c. Both a and b
d. None of the above

18. MEC curve slopes____

a. Upwards
b. Downwards
c. Remain constant
d. None of the above

19. When MEC>1 , the effect will be ____

a. Neutral

b. Favourable
c. Unfavourable
d. None of the above
20. MEC refers to ____
a. Consumption
b. Savings
c. Expected rate of profit
d. Expected rate of interest
21. Investment will be in equilibrium when ____ become equal to the given current rate of interest.
a. Marginal efficiency of capital
b. Profits
c. Savings
d. None of the above
22. Marginal efficiency of capital refers to the ____ of a capital assets.
a. Expected rate of interest
b. Expected rate of profits
c. Both a and b
d. None of these
23. The IS curve shows the combinations of output and the real interest rate for which ____
a. The goods market is in equilibrium
b. The labour market is in equilibrium
c. The financial assets market is in equilibrium
d. None of these
24. The IS curve represents ____
   a. The money market equilibrium
   b. The goods market equilibrium
   c. The labour market equilibrium
   d. All of these
25. The IS curve is a ____
   a. Upward sloping curve
   b. Parallel to Y axis
   c. Downward sloping curve
   d. Parallel to X axis

<u>Module -4- Monetary and Fiscal Policy</u>

1. When IS and LM curve intersect ____ markets are in equilibrium
   a. goods and capital
   b. money and goods
   c. money and foreign exchange
   d. capital and foreign exchange
2. IS-LM Model is a ____
   a. Micro economic tool
   b. Macroeconomic tool
   c. Noneconomic tool
   d. None of the above

3. Fiscal policy is the policy relating to _________.
a. Taxation
b. Public debt
c. Government expenditure
d. All of these

4. Fiscal policy is also called as a _________ policy.
a. Budgetary
b. Monetary
c. both a and b
d. None of these

5. Which of the following is/are objectives of fiscal policy?
a. Economic growth and development
b. Efficient allocation of resources
c. Both a) and b)
d. None of these

6. During inflation, the government adopt ____________fiscal policy.
a. Expansionary
b. Contractionary
c. stagnant
d. growing

7. During deflation, the government adopt ____________fiscal policy.
a. Expansionary
b. Contractionary
c. Both of these
d. None of these

8. Principle of sound finance refers to _____________.
a. Minimum government spending
b. Maximum government spending
c. Revenue expenditure balanced at the minimum level
d. Balance between tax and spending

9. The origin of the term functional finance is attributed to _________.
a. J. M. Keynes
b. A. C. Pigou
c. A.P. Lerner
d. Richard Musgrave

10. Which of the following statements applies to the principle of functional finance?
a. Budget deficits are uneconomical at all times and should be avoided
b. Social objectives should be the primary focus of fiscal policy

c. Government spending should be restricted to the traditional functions
d. Every public expenditure is inflationary

11. What is the appropriate budget policy during recession?
a. Balanced budget
b. Neutral budget
c. Surplus budget
d. Deficit budget

12. The Neo-Keynesian approach to public finance is called __________.
a. Sound finance
b. Functional finance
c. Global finance
d. Federal finance

13. Budget is an instrument of ___________.
a. Monetary policy
b. Fiscal policy
c. Trade policy
d. None of these

14. Increase in tax will ____
a. Divert the investment
b. Reduce the investment to zero
c. Increase the investment
d. None of these

15. Tax on rich and luxury goods will____
a. Increase the investment
b. Check inflation
c. Check deflation
d. Will have no economic impact

16. The objective of taxation by the government is ____
a. Raising revenue for the state
b. To maintain economic stability
c. To remove disparities in the distribution of income
d. All of the above

17. Public expenditure on education and health will have a _______ effect on people's ability to work.
a. Negative
b. Neutral
c. Positive
d. Stagnating

18. During recession, __________________.

a. Public expenditure should be increased
b. Public expenditure should be reduced
c. Taxation should be increased
d. Public debts should be incurred

19. Which of the following is the object of public debt?
   a. War finance
   b. Curbing of inflation
   c. Development Finance
   d. All of the above

20. Which of these is NOT a monetary policy tool?
   a. Discount Rate
   b. Open Market Operations
   c. Balance Accounts
   d. Reserve Requirements
21. The goals of monetary policy do NOT include the promotion of ____
   a. Maximum employment
   b. Low Taxes
   c. Stable Prices
   d. Moderate long-term interest rates
22. Monetary policy refers to what the RBI does to influence the amount of ____ in the Indian economy.
   a. Currency and gold reserves
   b. Money and credit
   c. Taxes and revenue
   d. Interest and debt

23. Monetary Policy is a regulatory policy by which the ______or monetary authority of a country controls the supply of money, availability of bank credit and cost of money that is the rate of interest

   a. Central Bank (RBI)
   b. SBI
   c. IBA
   d. none of the above

24. An open market operation is an instrument of monetary policy which involves buying or selling of ________from or to the public and banks

   a. Debentures and shares
   b. Government securities
   c. Bonds and other local securities
   d. None of these

25. The RBI is empowered to vary the CRR between
   a. 2 % and 16%
   b. 3 % and 15%
   c. 5 % and 25%

d. None of the above

****