# Model Question Paper
## Economics - II (MSF1A4)

- Answer all 74 questions.
- Marks are indicated against each question.

**Total Marks : 100**

1. Which of the following is **true** if the central bank of a country sells government securities in the open market?
   - (a) LM curve shifts to left
   - (b) LM curve shifts to right
   - (c) IS curve shifts to left
   - (d) IS curve shifts to right
   - (e) Interest rates will fall. **(1 mark)**

2. Which of the following is **not** an objective of macro economic policy?
   - (a) Full utilization of human and non human resources
   - (b) Maintenance of price stability
   - (c) Maintenance of high living standard
   - (d) Increasing economic inequality
   - (e) Increasing the growth rate of the economy. **(1 mark)**

3. Gross Domestic Saving is the difference between the
   - (a) Net Domestic Product and Consumption
   - (b) Gross Domestic Product and Aggregate consumption
   - (c) Net National Product and Saving
   - (d) Net National Product at factor cost and Saving
   - (e) Gross National Product and Consumption. **(1 mark)**

4. Which of the following is **true** with respect to Aggregate Supply (AS) curve in the classical model?
   - (a) AS curve is positively sloped in the short run and it is vertical in the long run
   - (b) AS curve is positively sloped both in the short run and in the long run
   - (c) AS curve is positively sloped in the short run and negatively sloped in the long run
   - (d) AS curve is vertical both in the short run and in the long run
   - (e) AS curve is rectangular hyperbola in the long-run. **(1 mark)**

5. Which of the following constituents of Gross Domestic Capital Formation is/are known as the Gross Fixed Investment?
   - I. Making good the depreciation on the existing fixed assets.
   - II. Adding to the stock of fixed assets.
   - III. Adding to the inventories.
   - (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)**

6. Income from domestic production accruing to the private sector is known as
   - (a) GDP at factor cost
   - (b) GNP at factor cost
   - (c) NNP at factor cost
   - (d) NDP at factor cost
   - (e) NNP at market price. **(1 mark)**

7. Which of the following methods of the measurement of national income is/are used to estimate gross and net value added in the primary sectors like agriculture and allied activities?
   - I. The output method.
   - II. The income method.
   - III. The expenditure method.
   - (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)

8.  Which of the following is/are the use(s) of National Income Statistics?

I.      As an instrument of economic planning and review.
II.     As a means of indicating changes in a country's standard of living.
III.    As a means of comparing the economic performance of different countries.

(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)

9.  In the consumption function, $C = \alpha + \beta Y$, $\alpha$ represents

(a)    Autonomous Consumption
(b)    Marginal Propensity to consume
(c)    Marginal Propensity to save
(d)    Average Propensity to consume
(e)    Average Propensity to save.                                                            (1 mark)

10. The desired increase in government expenditure to attain full employment is

(a)    The output gap
(b)    The multiplier
(c)    The difference between the output gap and the multiplier
(d)    The sum of the output gap and the multiplier
(e)    The ratio of the output gap (at the equilibrium level) and the multiplier.             (1 mark)

11. In an open economy, aggregate demand is the sum of consumption, investment, government
    expenditure and net export. An autonomous increase in the aggregate demand means

I.      Rise in the investment demand.
II.     An upward shift of the consumption function.
III.    A downward shift of the saving-supply function.

(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)

12. When the marginal propensity to consume increases, the marginal propensity to save

(a)    Decreases and multiplier will grow larger
(b)    Increases and multiplier will grow larger
(c)    Decreases and multiplier will become smaller
(d)    Increases and multiplier will become smaller
(e)    Decreases and multiplier will remain unchanged.                                        (1 mark)

13. Which of the following is **not** one of the basic postulates of the Keynesian model?

(a)    Full employment occurs only by coincidence in an economy
(b)    Effective demand determines the level of employment and output
(c)    Since full employment is not always possible, Government intervention is essential
(d)    Budget deficit is a tool to fight recession
(e)    Monetary policy is more effective than fiscal policy.                                   (1 mark)

14. A country may be able to correct its persistent balance of payments deficit by

(a)    Lowering the import barriers
(b)    Reducing its official reserves
(c)    Increasing the national income
(d)    Reducing the international value of its currency

(e)    Reducing the money supply.                                                                                **(1 mark)**

**15.** Which of the following occurs during the phase of depression in the economy?

(a)    Output increases, employment decreases
(b)    Output decreases, employment increases
(c)    Output decreases, employment decreases
(d)    Output increases, employment increases
(e)    Output decreases, employment remain the constant.                                                         **(1 mark)**

**16.** In the short run if all the available resources are fully utilized in the economy, aggregate supply curve

(a)    Is a horizontal straight line
(b)    Is vertical straight line
(c)    Is upward sloping from left to right
(d)    Is downward sloping from left to right
(e)    Is rectangular hyperbola.                                                                                 **(1 mark)**

**17.** Which of the following factor(s) influence the short run supply curve?

I.      Changes in the cost of production.
II.     Supply disturbances.
III.    Investment spending and technological changes.

(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)**

**18.** Which of the following is a monetary liability for the Reserve Bank of India?

(a)    Paid-up capital
(b)    Statutory reserve
(c)    Contingency reserve
(d)    Government deposits
(e)    Notes in circulation.                                                                                    **(1 mark)**

**19.** The RBI money together with government money constitutes the monetary base which is known as

(a)    Money supply
(b)    High powered money
(c)    Transactions demand for money
(d)    Speculative demand for money
(e)    Precautionary demand for money.                                                                           **(1 mark)**

**20.** Which of the following factors is/are responsible for an increase in the money supply?

I.      Increase in cash reserve ratio.
II.     Increase in currency deposit ratio.
III.    Increase in high powered money.

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

**21.** Unemployment in the Keynesian model is caused by the

(a)    Deficiency in aggregate demand
(b)    Deficiency in aggregate supply
(c)    Increase in the interest rate
(d)    Increase in the inflation rate
(e)    Increase in the money supply.                                                                            **(1 mark)**

**22.** According to the Classical Model, a change in the money supply will affect

I.      The price level.
II.     The money wage.

    III.    The level of employment.

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

**23.** Which of the following statements is **true** about the Classical model of income determination?

    (a)    The existence of the underemployment in the economy
    (b)    The demand creates its own supply
    (c)    The intervention of the Government is necessary in the economy
    (d)    The model provided an adequate explanation of the cyclical phenomenon
    (e)    Classical economists favored partial equilibrium analysis.     **(1 mark)**

**24.** In which of the following situation(s) money is neutral according to the Keynesian model of income determination?

    I.    At the full employment level.
    II.    Special case of liquidity trap.
    III.    At some point of underemployment level.

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

**25.** Which of the following statements is **not true**?

    (a)    According Keynes precautionary demand for money is directly related to income
    (b)    Keynes explained the existence of the liquidity preference for money
    (c)    Keynes formulated his theory of interest explicitly in flow terms
    (d)    In Keynesian analysis both the accumulation of real capital and the accumulation of debt are excluded from the explicit consideration
    (e)    Keynes rejection of neutrality of money is closely linked with his monetary theory of interest.     **(1 mark)**

**26.** Which of the following statements is **not true** of the monetarist approach?

    (a)    Monetary policy is more effective than the fiscal policy
    (b)    Changes in money stock causes change in the output, employment and prices
    (c)    Fiscal Policy unless supported by the changes in the money supply is ineffective
    (d)    An increase in government spending must be financed by the tax decrease
    (e)    If increase in government spending is financed by the increase in the high powered money, private spending is not crowded out and this results in high growth of output and employment.     **(1 mark)**

**27.** According to the Supply Side economists, which of the following is/are the positive measures to effect a lowering of cost?

    I.    Reduction of the national insurance contribution.
    II.    Improving the supply and quality of labor.
    III.    Providing advisory services.

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

**28.** Which of the following statements is **not true** in the stage of boom of a business cycle?

    (a)    Industrial production increases
    (b)    Commodity prices increase
    (c)    Cost of production increases rapidly but slower than the rise in prices of goods and services
    (d)    The level of profit and investment is high
    (e)    Inventory stock gradually increases.     **(1 mark)**

**29.** The persistent rise in the general price level in an economy is referred as

(a)    Inflation
(b)    Deflation
(c)    Sterilization
(d)    Devaluation
(e)    Stagflation.                                                                                          **(1 mark)**

**30.**Which of the following real factors cause a shift in the aggregate demand curve?

I.     An increase in government expenditure with no change in the tax receipts.
II.    A decrease in the tax receipts with no change in government spending.
III.   A rightward shift in the consumption function.
IV.    A rightward shift of the investment or export function.

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

**31.**As  there is no trade off between inflation and unemployment in the long run, the Philips curve is

(a)    A vertical straight line
(b)    A horizontal straight line
(c)    An upward rising curve
(d)    A downward sloping curve
(e)    Rectangular hyperbola.                                                                               **(1 mark)**

**32.**Which of the following is **not** a cause of international trade?

(a)    Unequal distribution of natural resources
(b)    Difference in technology
(c)    Different preferences
(d)    Cost advantages
(e)    Decrease in the rate of inflation.                                                                    **(1 mark)**

**33.**Terms of trade refers to

(a)    The difference between export price and import price
(b)    The sum of export price and import price
(c)    The multiplication of export price and import price
(d)    The ratio of export price to import price
(e)    The ratio of import price to export price.                                                           **(1 mark)**

**34.**Which of the following is primarily a macroeconomic issue?

(a)    The growth of aggregate output in the economy
(b)    A worker deciding how many hours to work at a given wage rate
(c)    The equilibrium price of apples
(d)    A firm's decision as to whether to invest in new capital at a given interest rate
(e)    A consumer's response to the change in price of a complimentary good.                                  **(1 mark)**

**35.**Which of the following statements is/are **correct**?

I.     In case of progressive tax, greater the volume of income, larger will be the burden of tax.
II.    In case of regressive tax, the tax burden remains same irrespective of the level of income.
III.   In case of proportional tax, the greater the volume of income, lower will be the burden of tax.

(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)**

**36.**Which of the following statements is **not true**?

(a)    Depreciation is the allowance given for using capital equipment
(b)    Net factor income from abroad refers to inflow of factor income from abroad minus the
         corresponding outflow

(c)    National product at factor cost is always higher than national product at market price
(d)    GDP at market price is the most comprehensive measure of aggregate income
(e)    Net exports are also known as balance of trade.                    **(1 mark)**

**37.** The nominal GDP grows faster than the real GDP because of

(a)    Indirect taxes
(b)    Subsidies
(c)    Depreciation
(d)    Inflation
(e)    Net exports.                    **(1 mark)**

**38.** According to the Keynesian theory beyond full employment level of output,

(a)    The aggregate supply will increase with increase in aggregate demand and prices remain unchanged
(b)    The aggregate supply will decrease with increase in aggregate demand and prices remain unchanged
(c)    The aggregate supply will increase with increase in aggregate demand and prices also increase
(d)    The aggregate supply will decrease with increase in aggregate demand and prices increase
(e)    The aggregate supply will remain the same with increase in aggregate demand and prices increase.                    **(1 mark)**

**39.** Which of the following is/are the assumption(s) of IS Curve?

I.    Investment equals savings at equilibrium.
II.    Investment increases with income.
III.   Saving is related to interest.

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

**40.** According to  Keynesian theory, business investment will decline as a result of

(a)    A fall in the interest rate
(b)    A decrease in business taxes
(c)    A decline in business expectations
(d)    Decrease in depreciation
(e)    An increase in consumption expenditure.                    **(1 mark)**

**41.** Which of the following statements is **true** with regard to price indices?

(a)    GDP deflator measures the cost of buying a fixed basket of goods and services
(b)    Consumer Price Index (CPI) measures the prices of a larger basket of goods than the GDP deflator does
(c)    When automobile production in the economy is relatively large, automobiles receive a relatively larger weight in the computation of the GDP deflator
(d)    If prices of imports increase, the GDP deflator also increases
(e)    When automobile production in the economy is relatively large, automobiles receive a relatively larger weight in the computation of the CPI.                    **(1 mark)**

**42.** The quantity theory of money implies that a given percentage change in the money supply will cause

(a)    An equal percentage change in nominal GDP
(b)    A smaller percentage change in nominal GDP
(c)    A larger percentage change in nominal GDP
(d)    An equal percentage change in real GDP
(e)    A smaller percentage change in real GDP.                    **(1 mark)**

**43.** An economy operating below full employment, a deficiency in demand will result in

(a)    Full employment
(b)    Fall in interest rates
(c)    Larger level of unemployment
(d)    Inflation

(e)   Rise in real wages.                                                                    **(1 mark)**

**44.** If the marginal propensity to consume is zero, a decrease in investment would lead to

(a)   A decrease in the equilibrium level of income by the same amount
(b)   No change in the equilibrium level of income
(c)   An unending downward spiral in equilibrium level of income
(d)   An unending upward spiral in the equilibrium level of income
(e)   An increase in the equilibrium level of income by the same amount.                      **(1 mark)**

**45.** Following information is given about a hypothetical economy for the year 2008:

| Particulars | MUC |
|---|---|
| GNP at factor cost | 7,500 |
| NNP at market price | 6,250 |
| Indirect taxes | 1,345 |
| Subsidies | 1,587 |

The depreciation value of the economy is

(a)   1,750 MUC
(b)   1,950 MUC
(c)   1,008 MUC
(d)   1,050 MUC
(e)   1,250 MUC.                                                                             **(2marks)**

**46.** An economy consists of the three sectors: Primary, Secondary and Tertiary sectors. Transactions related to the three sectors are given below:

(**MUC**)

| Items | Primary Sector | Secondary Sector | Tertiary Sector |
|---|---|---|---|
| Sales | 200 | 300 | 260 |
| Closing stock | 30 | 40 | 50 |
| Intermediate consumption | 30 | 50 | 30 |
| Opening stock | 20 | 20 | 30 |
| Indirect taxes | 24 | 26 | 34 |
| Depreciation | 20 | 24 | 30 |
| Subsidies | 14 | 16 | 14 |

The GDP at factor cost for the economy is

(a)   450 MUC
(b)   684 MUC
(c)   750 MUC
(d)   897 MUC
(e)   950 MUC.                                                                              **(2marks)**

**47.** The following data is extracted from the National Income accounts of a country for the year 2007-2008:

| Particulars | MUC |
|---|---|
| GNP at factor cost | 3,545 |
| Subsidies | 1,242 |
| NNP at market price | 4,343 |
| Depreciation | 250 |
| NDP at factor cost | 150 |

The indirect taxes of the economy is

(a)   2,290 MUC
(b)   3,245 MUC
(c)   4,578 MUC
(d)   1,245 MUC
(e)   3,645 MUC.                                                                            **(2marks)**

**48.** Following information is given about an economy:

| Particulars | MUC |
|---|---|
| NNP at factor cost | 5,445 |
| Corporate tax | 1,223 |
| Retained Profit | 1,145 |
| Personal Income tax | 1,321 |

The personal disposable income is

(a)    1,050 MUC
(b)    1,526 MUC
(c)    1,756 MUC
(d)    1,945 MUC
(e)    2,178 MUC.

(1 mark)

**49.** The net export function for the economy is estimated as $E = 200 – 0.1Y$. The marginal propensity to consume is 0.75 and the tax rate is 20%. Assuming that the investment is autonomous and increases by 1,462MUC during the year, the trade balance deteriorates by

(a)    146.2 MUC
(b)    292.4 MUC
(c)    300.0 MUC
(d)    450.0 MUC
(e)    525.0 MUC.

(2marks)

**50.** The consumption function for an economy is ascertained as follows:

$$C_t = 25 + 0.60\, Y_d^t + 0.20\, C_{t-1}$$

Where $C_t$ and $C_{t-1}$ denote consumption function in periods t and t-1 respectively and $Y_d^t$ is the disposable income in period t.

If $Y_d^t$ has been 250 MUC for a long time, compute the steady level of consumption in the economy

(a)    200.00 MUC
(b)    225.50 MUC
(c)    210.75 MUC
(d)    218.75 MUC
(e)    230.00 MUC.

(2marks)

**51.** The following table shows the different level of consumption at different level of disposable income:

| Disposable Income (Y) | Consumption (C) |
|---|---|
| 800 | 320 |
| 1,200 | 420 |

The value of multiplier is

(a)    0.25
(b)    1.25
(c)    1.33
(d)    3.25
(e)    4.25.

(2marks)

**52.** Given the saving function as $S = –250 + 0.4Y$, at what level of income, saving will be equal to investment if autonomous investment is 200 MUC.

(a)    1,125 MUC
(b)    1,250 MUC
(c)    1,345 MUC
(d)    1,457 MUC
(e)    1,546 MUC.

(2marks)

**53.** The consumption function for a is given as $C = 180 + \beta Y_d$. If the level of disposable income is 1,000 MUC and consumption is 800 MUC, the marginal propensity to consume is

(a)    0.620

(b)     1.222
(c)     1.567
(d)     2.000
(e)     2.456.                                                                                                   **(2marks)**

**54.** The following information is available for a hypothetical economy:

| Income elasticity of demand for real balances | 3 |
|---|---|
| Acceptable inflation rate | 6% |
| Money multiplier | 8 |

If the real GDP is desired to grow at 6%, what is the rate at which reserve money should grow?

(a)     1%
(b)     2%
(c)     3%
(d)     4%
(e)     6%.                                                                                                      **(2marks)**

**55.** In an economy, classical quantity theory of money holds and the velocity of money is constant at 5. Output is fixed at the full employment level of 10,000 MUC and the price level is 2. The real demand for money in the economy is

(a)     2,000 MUC
(b)     1,250 MUC
(c)     1,500 MUC
(d)     2,500 MUC
(e)     3,000 MUC.                                                                                              **(1 mark)**

**56.** In an economy, demand for money is $L = 0.4Y - 100i$ and supply of money is 600 MUC. If the government intends to increase the equilibrium interest rate from the current level of 6% to 9%, what will be the change in the equilibrium level of income?

(a)     750 MUC (increase)
(b)     750 MUC (decrease)
(c)     500 MUC (decrease)
(d)     500 MUC (increase)
(e)     No change in the equilibrium level of income.                                                           **(2marks)**

**57.** Following information is given about an economy:

| Transaction and precautionary demand for money (Mt) | 0.50Y |
|---|---|
| Speculative demand for money (Ms) | 2,500 – 200i |
| Investment function (I) | 400 – 20i |
| Supply of money (M) | 1,000 MUC |
| Current equilibrium rate of interest | 16% |
| Tax rate | 40% |

If the expansionary fiscal policy increase the equilibrium rate of interest to 32% and the IS function to $Y = 5,800 - 200i$, what should be the money supply in the economy to avoid the crowding out?

(a)     200 MUC
(b)     400 MUC
(c)     600 MUC
(d)     800 MUC
(e)     900 MUC.                                                                                                **(2marks)**

**58.** Consider an economy described by the following equations:

Government spending (G)                            = 1,000 MUC
Taxes (T)                                          = 1,000 MUC
Consumption (C)                                    = $500 + 0.75Y_d$
Investment demand (I)                              = $100 - 50i$
Transaction demand for money ($M_t/P$)             = $0.25Y$
Speculative demand for money ($M_a/P$)             = $125 - 50i$
Money supply ($M_s/P$)                             = 500 MUC

The equilibrium level of income in the economy is

(a)  2,000 MUC
(b)  2,750 MUC
(c)  2,450 MUC
(d)  3,000 MUC
(e)  3,500 MUC.                                                                    **(2marks)**

59. Following information is given about an economy:

| Goods market equilibrium | 0.5Y = 2,925 – 37.5i |
| Money market equilibrium | 0.25Y = 312.5 + 125i |
| Export | 650 MUC |
| Import function | 25 + 0.25Y |

The trade balance at equilibrium in the economy is

(a)  452.25 MUC (deficit)
(b)  452.25 MUC (surplus)
(c)  687.50 MUC (deficit)
(d)  687.50 MUC (surplus)
(e)  900.45 MUC (deficit).                                                        **(2marks)**

60. Following information is given about an economy:

| New issue ratio | 0.128 |
| Intermediation ratio | 0.144 |
| Financial Interrelation ratio | 2.42 |
| Net capital formation | 10,000 MUC |

The amount of secondary issues are

(a)  184.32 MUC
(b)  174.32 MUC
(c)  163.84 MUC
(d)  124.82 MUC
(e)  155.53 MUC.                                                                  **(2marks)**

61. Following information is given about an economy:

| Particulars | MUC |
|---|---|
| Consumption (C) | 1,000 |
| Investment (I) | 300 |
| Government Expenditure (G) | 280 |
| Export (X) | 160 |
| Import (M) | 120 |
| Money supply (Ms) | 324 |

The velocity of money in the economy is

(a)  5
(b)  6
(c)  7
(d)  8
(e)  9.                                                                          **(2marks)**

62. In an economy the monetary liability of the Reserve Bank of India (RBI) is 20,000 MUC and the government money is 4,000 MUC. The currency deposit ratio is 0.66. The Central banks money supply target is 45,000 MUC. The reserve ratio that RBI must impose on banks to achieve the money supply is

(a)  0.015
(b)  0.225
(c)  0.325
(d)  0.457
(e)  0.625.                                                                       **(2marks)**

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 1,245 MUC, what would happen to the money supply?

(a)     Decline by 5,976 MUC
(b)     Increase by 5,976 MUC
(c)     Decline by 1,245 MUC
(d)     Increase by 1,245 MUC
(e)     Decline by 1,480 MUC.                                      **(2marks)**

**64.** The following information is extracted from the Union budget for the year 2008-09:

| Particulars | Rs. in crore |
| --- | --- |
| Tax revenue (Net) | 3,89,093 |
| Non-tax revenue | 2,06,142 |
| Recoveries of loans | 45,492 |
| Borrowings and other liabilities | 3,48,942 |
| **Non-plan expenditure**: | |
| On revenue account (which includes interest payments of Rs.3,36,900 crore) | 7,51,023 |
| On capital account | 74,346 |
| **Plan expenditure:** | |
| On revenue account | 1,80,670 |
| On capital account | 1,04,625 |

The revenue deficit of the government is

(a)     Rs.3,09,024 crore
(b)     Rs.   66,492 crore
(c)     Rs.3,87,397 crore
(d)     Rs.3,36,458 crore
(e)     Rs.4,15,429 crore.                                         **(2marks)**

**65.** Following  information is given about an economy:

| Particulars | MUC |
| --- | --- |
| Credit to banks | 60,000 |
| Government deposits | 2,000 |
| Credit to government | 8,000 |
| Other non monetary liabilities | 810 |
| Foreign exchange assets | 1,400 |
| Credit to the commercial sector | 15,000 |
| Net worth | 70,000 |
| Other assets | 8,000 |
| Government Money | 10 |

The currency deposit ratio is 0.4 and the Central bank  has imposed a reserve ratio of 10%, the value of money supply in the economy is

(a)     24,580 MUC
(b)     34,680 MUC
(c)     44,780 MUC
(d)     54,880 MUC
(e)     54,980 MUC.                                               **(2marks)**

**66.** Following information is given about an economy:

| Particulars | MUC |
| --- | --- |
| External assistance to the country | 72 |
| External assistance by the country | 164 |
| Transfers (Credit) | 340 |
| Transfers (Debit) | 496 |
| Merchandise Exports | 69,908 |
| Merchandise Imports | 73,968 |

The overall trade balance is

(a) 1,010 MUC (Deficit)
(b) 3,060 MUC (Surplus)
(c) 3,060 MUC (Deficit)
(d) 4,060 MUC (Surplus)
(e) 4,060 MUC (Deficit). **(2marks)**

**67.** Following information is given about an economy:

| Particulars | MUC |
|---|---|
| Agricultural Exports | 2,000 |
| Aircraft Exports | 900 |
| Automobile Imports | 2,100 |
| Dividend paid to the foreign Investors | 200 |
| Donations received from abroad | 550 |
| Direct Investment abroad | 244 |
| Long-term loans and investment abroad | 1,800 |
| Foreign Direct Investment | 200 |

The Current Account balance is

(a) 494 MUC
(b) – 494 MUC
(c) 594 MUC
(d) – 694 MUC
(e) 694 MUC. **(2marks)**

**68.** The capital inflows and capital outflows in an economy during the year 2008 are 12,600 MUC and 9,000 MUC respectively. During the same period, Foreign Direct Investment is 1,000 MUC. Suppose there is no change in the official foreign exchange reserve assets held by the Central Bank , the current account balance for the economy is

(a) 3,600 MUC
(b) 4,600 MUC
(c) 5,600 MUC
(d) 6,600 MUC
(e) 7,600 MUC. **(1 mark)**

**69.** The following data pertains to a hypothetical economy:

| Year | Nominal GNP | GNP deflator |
|---|---|---|
| 2006-07 | 1,250 | 62.5 |
| 2007-08 | 1,650 | 75.0 |

What is the rate of inflation in the economy for the year 2007-08?

(a) 10.0%
(b) 12.5%
(c) 20.0%
(d) 5.5%
(e) 16.7%. **(2marks)**

**70.** The following balances are taken from the balance sheet of the Central Bank of an economy:

| Particulars | MUC |
|---|---|
| Loans given to the Government | 1,200 |
| Reserves maintained by the banks | 300 |
| Net worth | 80 |
| Loans to the commercial banks | 800 |
| Government deposits | 200 |
| Other assets | 60 |
| Other deposits with the central bank | 10 |
| Net foreign exchange assets | 1,500 |
| Loans to the commercial sector | 20 |

If the government money is 300 MUC, high-powered money in the economy is

(a)     3,100 MUC
(b)     3,250 MUC
(c)     3,300 MUC
(d)     3,400 MUC
(e)     3,600 MUC.                                                                                 **(2marks)**

**71.** The following data is  given for an economy:

Total Reserves with the central Bank          Rs.10,000 Cr.

Volume of demand deposits          Rs.30,000 Cr.

If the volume of reserves is decreased by Rs.5,000 Cr. and the volume of demand deposits increased by Rs.6,000 Cr., the new reserve ratio will be

(a)     0.010
(b)     0.025
(c)     0.298
(d)     0.139
(e)     7.200.                                                                                 **(2marks)**

**72.** In a hypothetical economy, population is expected to grow at 2.5% p.a. Planners fix a target of per capita GDP growth of 5.5% p.a. If the capital output ratio is 5:1 assuming no depreciation, what should be the rate of investment as a percentage of GDP?

(a)     10.0%
(b)     15.0%
(c)     20.0%
(d)     40.0%
(e)     100.0%.                                                                                 **(2marks)**

**73.** The consumption schedule for a two sector economy is given below:

| Consumption (C) (MUC) | Disposable Income ($Y_d$) (MUC) |
|---|---|
| 475.0 | 500 |
| 400.0 | 400 |

If savings in the economy is 100 MUC, the equilibrium income in the economy is

(a)     200 MUC
(b)     400 MUC
(c)     600 MUC
(d)     800 MUC
(e)     900 MUC.                                                                                 **(2marks)**

**74.** Refer to the graph below:
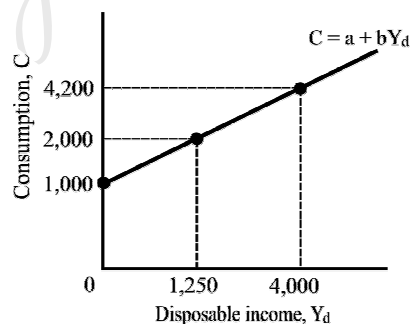


The level of autonomous consumption in the economy is

(a)     5,000 MUC
(b)     1,000 MUC
(c)     2,000 MUC
(d)     3,000 MUC
(e)     4,000 MUC.                                                                                 **(1 mark)**

**END OF QUESTION PAPER**

# Suggested Answers
# Economics - II (MSF1A4)

| | **Answer** | **Reason** |
|---|---|---|

**1.**    A    If the central bank of a country sells government securities in the open market the money supply decreases and hence, the LM curve shift to left.

**2.**    D    Following are the goals of macro economic policy.

    a.    Full utilization of human and non human resources

    b.    Maintenance of price stability

    c.    Maintenance of high living standard

    d.    Reduction of economic inequality and removal of poverty

    e.    Increasing the growth rate of the economy.

**3.**    B    Gross domestic saving is the difference between gross domestic product and aggregate consumption. Therefore option (b) is the correct answer.

**4.**    A    The aggregate supply explains the production behavior of an economy. If the actual price achieved is more than the expected price, firms will experience a higher than anticipated level of profits. This will lead to increase in production. That's why the short run aggregate supply curve slopes upward. But in the long run, the difference between expected and actual price levels is negligible. In the long run, the output of an economy doesn't depend on the price level, but on factors such as labor import costs, capital stock, technological progress, etc. So aggregate supply curve of an economy in long run is vertical.

    (a)    Is the answer because aggregate supply curve is positively sloped in the short run and vertical in the long run.

    (b)    Is not the answer because aggregate supply curve is not positively sloped in the short run as well as in the long run.

    (c)    Is not the answer because aggregate supply curve is not positively sloped in the short run as well as in the long run.

    (d)    Is not the answer because aggregate supply curve is not vertical in the short run and it is vertical in the long run.

    (e)    Is not the answer because in the long run, output of an economy doesn't depend on the price level, but on factors such as labor import costs, capital stock, technological progress, etc.

**5.**    D    Following are the constituents of the Gross Domestic Capital Formation

    I.    Making good the depreciation on the existing fixed assets

    II.    Adding to the stock of fixed assets

    III.    Adding to the inventories.

First two of the above three are known as the Gross Fixed Investment.

Therefore option (d) is the correct answer.

**6.**    D    Income from domestic production accruing to the private sector is known as NDP at factor cost. Therefore option (d) is the correct answer.

**7.**    A    The output method for the measurement of national income used to estimate gross and net value added in the primary sectors like agriculture and allied activities. Therefore option (a) is the correct answer.

**8.**    E    Following are the uses of national income statistics

    I.    As an instrument of economic planning and review.

    II.    As a means of indicating changes in a country's standard of living.

    III.    As a means of comparing the economic performance of different countries.

Therefore option (e) is the correct answer.

**9.**    A    Consumption function shows the functional relationship between income and consumption. $C = \alpha + \beta Y$

Here

$\alpha$ = Autonomous Consumption

β = Marginal Propensity to consume

Y = Level of income

Therefore option (a) is the correct answer.

10.  E   The desired increase in government expenditure to attain full employment is the ratio of the output gap and the multiplier. Therefore option (e) is the correct answer.

11.  E   An autonomous increase in the aggregate demand means

I.   Rise in the investment demand

II.  An upward shift of the consumption function.

III. A downward shift of the saving and supply function.

Therefore option (e) is the correct answer.

12.  A   When the marginal propensity to consume increases, the marginal propensity to save decreases and multiplier will grow larger

13.  E   (a)  Is not the answer because Keynes considered the existence of full employment as a special case. The Keynesian underemployment equilibrium is reflecting real life situations.

(b)  Is not the answer because aggregate demand or effective demand indicates the total quantity of goods and services that people want to buy. According to Keynes, effective aggregate demand determines the level of employment and output.

(c)  Is not the answer because Keynes argues that State intervention is essential as full employment is not possible in an economy.

(d)  Is not the answer because Keynes argues that an economy facing recession, budget deficit is an important tool to overcome recession.

(e)  Is the answer because in the Keynesian model, monetary policy is not effective as compared to fiscal policy. Rather it is the fiscal policy, which is very effective and powerful. Keynes argues that government should maintain an active stance with a combination of tax and expenditure policies to maintain the desired levels of output and employment through manipulation of effective demand.

14.  D   A country may be able to correct its persistent balance of payments deficit by reducing the international value of its currency.

15.  C   During the period of depression in the economy, output decreases and employment decreases.

16.  B   In the short run when all the available resources of the economy are fully utilized the aggregate supply curve will be a vertical straight line. Therefore option b is the correct answer.

17.  E   Following factors influence the aggregate supply in the short run

I.   Changes in the cost of production.

II.  Supply disturbances.

III. Investment spending and technological changes.

Therefore option (e) is the correct answer.

18.  E   Notes in circulation is a monetary liability whereas others are non monetary liabilities

Therefore option (e) is the correct answer.

19.  B   The RBI money together with government constitutes the monetary base which is known as high powered money. Therefore option (b) is the correct answer.

20.  B   Money supply will increase when

I.   Decrease in cash reserve ratio

II.  Decrease in currency deposit ratio.

III. Increase in high powered money

In the given cases the money supply will increase in case of the increase in the high powered money or decrease in the currency deposit ratio Therefore option c is the correct answer.

| | | |
|---|---|---|
| **21.** | A | Unemployment in the Keynesian model is caused by the deficiency in the aggregate demand. Therefore option (a) is the correct answer. |
| **22.** | C | According tot the classical model, changes in the aggregate supply will affect only the price level and the money wage. Therefore option (c) is the correct answer. |
| **23.** | E | Following statements are true about the classical model |

  a. The existence of the full employment in the economy

  b. The supply creates its own demand

  c. The intervention of the Government is not necessary for the existence of the economy

  d. The model does not provided an adequate explanation of the cyclical phenomenon

  e. Classical economists favored partial equilibrium analysis

Therefore option (e) is the correct answer.

**24.**   C   In the situation of full employment money is neutral in the following cases

  I. At the situation of full employment.

  II. Special case of liquidity trap.

Therefore option (c) is the correct answer.

**25.**   C   Following statements are true about the Keynesian model

  a. Keynes separated the demand for money into transaction and precautionary demand for money

  b. Keynes explained the existence the liquidity preference for money

  c. Keynes formulated his theory of interest explicitly in stock terms

  d. In Keynesian analysis both the accumulation of real capital and the accumulation of debt are excluded from the explicit consideration

  e. Keynes rejection of neutrality of money is c loosely linked with his monetary theory of interest.

Therefore option (c) is the correct answer.

**26.**   D   According to the monetarist approach the increase in the government spending must be accompanied by the increase in the tax rate. Therefore option (d) is the correct answer.

**27.**   E   According to the supply side economists, following are the the positive measures to effect a lowering of costs include

  I. Reduction of the national insurance contribution

  II. Improving the supply and quality of labor

  III. Providing and advisory services.

Therefore option (e) is the correct answer.

**28.**   E   In the stage of boom the inventory stock gradually decreases. Therefore option (e) is the correct answer.

**29.**   A   The inflation caused by the shift in the aggregate supply curve is Cost push inflation. Therefore option (a) is the correct answer.

**30.**   E   Following real factors cause a shift in the aggregate demand curve

  I. Increase in government expenditure with no change in the tax receipts.

  II. A decrease in the tax receipts with no change in government spending.

  III. A rightward shift in the consumption function.

  IV. A rightward shift of the investment or export function.

**31.**   A   As there is no trade off between inflation and unemployment in the long run, therefore the long run Philips curve is vertical. Therefore option (a) is the correct answer.

**32.**   E   Decrease in the price level is not a cause of international trade. And all others are the reasons responsible for international trade. Therefore option (e) is the correct answer.

**33.**   D   Terms of trade refers to the ratio of export price to import price and it depends upon on the price ratio at which the countries exchange products. Therefore option (d) is the correct answer.

**34.** A The growth of total output in the economy is primarily a macroeconomic issue. Total output is the aggregate output in the economy.

**35.** A I. Progressive tax is that tax where the burden of tax increases with the increase in income.

II. Regressive tax is that tax where the burden of tax decreases with the increase in income

III. Proportional tax is that tax where the burden of tax remains the same what ever the level of income

Therefore option (a) is the correct answer.

**36.** C National product at market price is always higher than national product at factor cost because the amount of indirect taxes which increases the prices is always greater than the subsidies which lower the price.

**37.** D Real GDP is a measure of the value of all goods and services produced in a country during a period of time, corrected for inflation. Thus the extent of difference between nominal GDP and real GDP shows the rate of inflation.

**38.** C According to the Keynesian theory beyond full employment level of output, the aggregate supply will increase with increase in aggregate demand and prices also increase.

**39.** E IS curve is based on the assumptions that

- Investment equals savings at equilibrium

- Investment increases with income

- Saving is related to interest

**40.** C According to Keynesian theory, business investment will decline as a result of a decline in business expectations

**41.** C It is Consumer Price Index (CPI) that measures the cost of buying a fixed basket of goods and services, but not the GDP deflator. GDP deflator considers much wider group of goods, all final goods and services produced during the year, than WPI and CPI. The basket of goods included in the GDP deflator varies from year to year, depending on what is produced in the economy during the year.

a. (a) is not correct. GDP deflator measures changes in the price levels of a basket of goods that varies from year to year depending on the goods and services produced during the year.

b. The basket of goods of the GDP deflator includes all final goods and services produced during the year irrespective of their nature (i.e. consumer or producer goods), and hence is broader than WPI and CPI.

c. The basket of goods included in the GDP deflator changes every year depending on what is produced in the economy in that year. Thus, when automobile production is large, it receives a relatively larger weight in the computation of GDP deflator.

d. GDP deflator includes only prices of goods and services that are produced within the boundaries of a country. Hence prices of imports do not affect the GDP deflator.

e. CPI measures only the cost of buying a fixed basket of goods and services, hence increase in automobile production does not affect computation of the CPI.

**42.** A Quantity theory of money (QTM) says

$MV = PY$

Where,

M = money supply

V = velocity of money

P = price level

Y = real GDP

PY = nominal GDP

Assuming V is a constant, a change in M leads to an equal percentage change in PY.

(a)   Is the answer because the quantity theory of money implies that a given percentage change in the money supply will cause an equal percentage change in nominal GDP

(b)   Is not the answer because the quantity theory of money implies that a given percentage change in the money supply will not cause a smaller percentage change in nominal GDP

(c)   Is not the answer because the quantity theory of money implies that a given percentage change in the money supply will not cause a larger percentage change in nominal GDP

(d)   Is not the answer because the quantity theory of money implies that a given percentage change in the money supply will not cause an equal percentage change in real GDP

(e)   Is not the answer because the quantity theory of money implies that a given percentage change in the money supply will not cause a smaller percentage change in real GDP.

**43.**   **C**   An economy with less than full employment level will lead to further unemployment, if the level of aggregate demand is not equal to aggregate supply. Hence the correct answer is C.

(a)   Is not the answer because in an economy operating below full employment, a deficiency in demand will not result in full employment

(b)   Is not the answer because in an economy operating below full employment, a deficiency in demand will not result in fall in interest rates

(c)   Is the answer because in an economy operating below full employment, a deficiency in demand will result in larger level of unemployment

(d)   Is not the answer because in an economy operating below full employment, a deficiency in demand will not result in inflation

(e)   Is not the answer because in an economy operating below full employment, a deficiency in demand will not result in rise in real wages

**44.**   **A**   When MPC = 0

Multiplier $= \dfrac{1}{1-0} = 1$. Therefore, the equilibrium income would also decrease by the same amount as decrease in investment.

**45.**   **C**   Depreciation = GNP at market price – NNP at market price

GNP at market price = GNP at factor cost + Indirect taxes – Subsidies

GNP at market price = 7,500 + 1,345 - 1,587 = 7,258

Depreciation = GNP at market price – NNP at market price = 7,258 – 6,250 =1,008 MUC

Therefore option (c) is the correct answer.

**46.**   **B**   Value added by the factors of production

= Sales – Intermediate Consumption – Indirect taxes + Subsidies

Value added by the primary sector   = 200 – 30 –24 + 14 =160

Value added by the secondary sector      = 300 – 50 – 26 +16 =240

Value added by the tertiary sector    = 260 –30 –34+14 = 210

NDP at factor cost   = Sum of value added by the primary sector, secondary sector and the tertiary sector

= 160 + 240 + 210    = 610

Depreciation            = 20+24+30 = 74

GDP at factor cost   = 610+74 = 684 MUC

The GDP at factor cost is 684 MUC. Therefore option (b) is the correct answer.

**47.**   **A**   GNP at market price = GNP at factor cost + Indirect taxes – Subsidies

GNP at market price = NNP at market price + Depreciation

= 4,343 +250 = 4,593

4,593 = 3,545 + Indirect taxes – 1,242

Indirect taxes = 4,593+1,242–3,545 = 2,290 MUC

Therefore option (a) is the correct answer.

**48.** C Personal disposable income = NNP at factor cost – Corporate tax– Retained Profit – Personal Income tax = 5,445–1,223 –1,145 –1,321 =1,756 MUC

The personal disposable income is 1,756 MUC. Therefore option (c) is the correct answer.

**49.** B Multiplier = $1/(1 – MPC + MPC \times t + MPI) = 1/(1 – 0.75+ 0.75 \times 0.2+0.10) = 1/ 0.50= 2$

Thus if investment increases by 1,462MUC, income increases by 2,924MUC. Thus, change in trade balance

$= – 0.1 \times 2924= (292.4)$.

**50.** D The consumption function for an economy is ascertained as:

$C_t = 25 + 0.60\ Y_d^t + 0.2\ C_{t-1}$

$C_t$ = Consumption function in period t

$C_{t-1}$ = Consumption function in period t–1

$Y_d^t$ = disposable income = 250 MUC

At steady state level, $C_t\ =\ C_{t-1}$

$\therefore C_t = 25 + 0.60\ Y_d^t + 0.2C_t$

$C_t – 0.2C_t\ =\ 25 + 0.60\ Y_d^t$

$C_t\ =\ \dfrac{1}{0.80}[25+0.6Y_d^t]$

$C_t\ =\ \dfrac{1}{0.80}[25+(0.6\times250)]$

$=\ 218.75$ MUC

**51.** C MPC = $\Delta C/\Delta Y$= 100/400= 0.25

Multiplier = 1/0.75 = 1.33

**52.** A Saving is equal to investment at equilibrium. Therefore

S = –250 + 0.4Y = 200

0.4Y = 450

Y = 1,125 MUC.

Therefore option (a) is the correct answer.

**53.** A $C =180 + \beta Y_d$

$800 = 180 + \beta 1000$

$1000\,\beta = 620$

$\beta = 620 / 1000 = 0.62$

**54.** C Rate of growth of money stock (gM) = a.gY + gP

Where, 'a' = income elasticity of demand for real balances

'gY' = expected rate of growth in real GDP

'gP' = acceptable rate of inflation

Thus, 'gM' = (3 x 6) + 6= 24%

Given money multiplier is 8,

Rate of growth of reserve money = 24 / 8 = 3.0%.

**55.** A We have MV = PY or M = PY / V = $2\times$ 10,000 / 5 = 4,000 MUC.

The real demand for money = Nominal demand / Price level = 4,000 / 2 = 2,000 MUC.

56.    A    $L = 0.4Y - 100i$

At equilibrium, demand for money = Supply of money

i.e. $0.4Y - 100i = 600$

When, i = 6, $0.4Y - 100(6) = 600$

Or, $0.4Y = 1200$

Or, $Y = 3000$

When i = 9 , $0.4Y - 100 (9) = 600$

Or, $0.4Y = 1500$

Or, $Y = 3750$

∴ Change in the equilibrium level of income = 3750 – 3000 = 750 MUC (increase).

57.    C    There will not be any crowding out if i = 16%

This can happen only when the IS function shifts to the left substituting i = 16% becomes

$Y = 5,800 - 200 (16) = 2,600$

Total money demand function = (Mt/p) +(Ms/p) = 0.50Y + 2,500 – 200i

Substituting Y = 2600 and i = 16% the total demand for money function becomes

$0.50(2,600) + 2,500 - 200(16) = 1,300 + 2,500 - 3,200 = 600 MUC$

To avoid the crowding out the money supply is 600 MUC. Therefore option (c) is the correct answer.

58.    C    Goods market will be in equilibrium when Y = AD = C + I + G

$Y = 500 + 0.75(Y - T) + 100 - 50i + 1000$

$= 1600 + 0.75(Y - 1000) - 50i$

$Y = 850 + 0.75Y - 50i$

$0.25Y = 850 - 50i$                     ….. IS curve

Money market will be in equilibrium when:

Money supply ($M_s$) = Money demand ($M_d$)

$500 = 0.25Y + 125 - 50i$

$375 = 0.25Y - 50i$

$0.25Y = 375 + 50i$                     ….. LM curve

Thus, at simultaneous equilibrium,

$850 - 50i = 375 + 50i$

$475 = 100i$

$i = 4.75$

When i = 4.75, $0.25Y = 375 + 50 (4.75) = 612.5$

Or, $Y = 612.5/0.25 = 2450$ MUC.

59.    C    Goods market equilibrium

$0.5Y = 2,925 - 37.5i$

$Y = 5,850 - 75i$

Money market equilibrium

$0.25Y = 312.5 + 125i$

$Y = 1,250 + 500i$

At simultaneous equilibrium of goods and money market

$5,850 - 75i = 1,250 + 500i$

or $575i = 4,600$

or, i = 8%

$Y = 5850 - 8(75) = 5,850 - 600 = 5,250$

Trade balance equilibrium at equilibrium = E – M

$= 650 - (25 + 0.25Y) = 650 - 25 - 0.25(5250)$

$= 650 - 25 - 1312.50 = - 687.5MUC$

So there is deficit of 687.5 MUC. Therefore option (c) is the correct answer.

| 60. | A | Primary issues = New issue ratio × Net capital formation = 0.128× 10,000 = 1,280 MUC |

Secondary issues = Intermediation ratio × Primary issues = 0.144 × 1,280 = 184.32 MUC

Therefore option (a) is the correct answer.

| 61. | A | The velocity of money supply = Y/Ms |

$Y = C + I + G + X - M$

$Y = 1,000 + 300 + 280 + 160 - 120 = 1,620$

Velocity of Money = 1,620/324 = 5

Therefore option (a) is the correct answer.

| 62. | B | High powered money (H) = Monetary liability of the Central bank + Government money = 20,000 + 4,000 = 24,000 |

Currency deposit ratio = 0.66

Money supply (M) = 45,000

$$45,000 = 24,000 \left( \frac{1+c}{c+r} \right)$$

$$\Rightarrow 45,000 = 24,000 \left( \frac{1+0.66}{0.66+r} \right)$$

$$\Rightarrow 45,000(0.66+r) = 24,000(1+0.66)$$

$$\Rightarrow 45,000r + 29,700 = 39,840$$

$$\Rightarrow 45,000r = 39,840 - 29,700 = 10,140$$

$$\Rightarrow r = \frac{10,140}{45,000} = 0.225$$

Therefore the cash reserve ratio is 0.225.

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

$\Delta Ms = \Delta H. m$

m= (1+Cu) /( Cu + r)

= (1+0.2)/ (0.2+0.05)

= 4.8

When foreign exchange reserves of the country decline by 1,245MUC, the monetary liabilities also fall by 1,245MUC Thus, money supply decline by 4.8 x 1,245MUC = 5,976 MUC

| 64. | D | Revenue deficit = Revenue expenditure – Revenue receipts |

Revenue expenditure = Non-plan revenue expenditure + Plan revenue expenditure

= 7,51,023 + 1,80,670= 9,31,693

Revenue receipts = Tax revenue + Non-tax revenue

= 3,89,093 + 2,06,142 = 5,95,235

$\therefore$ Revenue deficit = 9,31,693 – 5,95,235 = Rs.3,36,458crore

| 65. | D | Money supply in the economy |

$$M = H \left( \frac{1+c}{c+r} \right)$$

H =High powered money

r = Reserve ratio

Cu = Currency deposit ratio

H = Monetary liabilities of the RBI + Government money

Monetary liabilities of the RBI = Financial assets of the RBI + Other assets of RBI – Non monetary liabilities of RBI

FA(RBI) = 60,000 + 8,000 + 1,400 + 15,000 = 84,400

OA (RBI) = 8,000

NML (RBI) = 2,000 + 810 + 70,000 = 72,810

Thus

ML(RBI) = 84,400 + 8,000 – 72,810 = 19590

Hence, H = 19,590 + 10 = 19,600

Money multiplier = $\left(\dfrac{1+c}{c+r}\right)$

(1 + 0.4) / (0.4 + 0.1) = 2.8

M = 19,600 × 2.8 = 54,880 MUC

Therefore option (d) is the correct answer.

**66.**   E   Trade balance = Merchandise Export – Merchandise Import = 69,908 – 73,968 = 4,060 (deficit)

Therefore option (e) is the correct answer.

**67.**   E

| | Particulars | Credit | Debit | Net |
|---|---|---|---|---|
| I. | Merchandise | 2,900 | 2,100 | 800 |
| II. | Invisibles | 444 | 550 | 106 |
| a. | Services | 200 | 0 | 200 |
| b. | Transfers | 244 | 0 | 244 |
| c. | Investment Income | 0 | | |
| | Total Current Account | | | |
| | | 3,344 | 2,650 | 694 |

So the current account balance is 694 MUC

**68.**   A   The current account balance    = Capital Inflows – Capital Outflows

= 12,600 – 9,000 = 3,600MUC

Therefore option (a) is the correct answer.

**69.**   C   Inflation rate = (GNP deflator of current period – GNP deflator of previous year)

'divided by' GNP deflator of previous year x 100 = $\dfrac{75-62.5}{62.5}\times100 = 20\%.$

**70.**   E   High – Powered money (H) = monetary liabilities of central bank + Government money.

Monetary liabilities = Financial assets + other assets  – Non monetary liabilities

Financial assets = Loans given to Government + Credit to banks + Loans given to commercial sector + foreign exchange assets

= 1,200 + 800 + 20 + 1,500 = 3,520

Non monetary liabilities = 200 + 80 = 280

Monetary liabilities = 3,520 + 60 – 280 = 3,300

∴ M = 3,300 + 300 = 3,600 MUC

**71.**   D   When reserves are decreased by 5000, the new reserves = 5000.When volume of demand deposits is increased by 5000, new demand deposits = 30000 + 6000 = 36,000

Reserve requirements = 5000 / 36000 = 0.1388=0.139.

**72.**   D   Reason:   Growth = 2.5 + 5.5  = 8%

Rate of investment = 5 × 8

= 40%

**73.**   D   C = α + βYd

Where, α = autonomous consumption and β = marginal propensity to consume (MPC)

$\beta = \Delta C/\Delta Y_d = (475 - 400)/100 = 0.75$

If MPC = 0.75, autonomous consumption:

$475 = a + 0.75(500)$

Or, a = 100.

Thus, $C = 100 + 0.75Y_d$

Or, $S = -100 + 0.25Y_d$

When S = 100, $100 = -100 + 0.25Y_d$

or, $200 = 0.25Y_d$

or, $Y_d = 800$ MUC

Since the economy is a two sector economy, $Y = Y_d$ (disposable income).

**74.**    B    MPC    =    Change in consumption / Change in disposable income

                   =    $\Delta C/\Delta Yd = (4,200 - 2,000) / (4,000 - 1250)$

                   =    0.8

If MPC = b = 0.8, then

4200                  $a + 0.8(4,000)$

4200           =    $a + 3,200$

Or, a    =    $4,200 - 3,200 = 1,000$ MUC.