Macro Economics
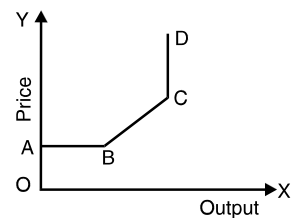## (Determination of Income & Employment and Money & Banking)

1. If a straight line consumption function intercepts the vertical axis at some positive value, it implies that
   A. the MPC is constant and APC rises as the level of disposable income increases
   B. the MPC and APC rise as the level of disposable income increases
   C. the MPC is constant and APC falls as the level of disposable income increases
   D. the MPC and APC fall as the level of disposable income increases

2. The IS curve shows
   A. a positive relationship between rate of interest and the level of income
   B. a negative relationship between rate of interest and the level of income
   C. a positive relationship between rate of interest and the level of autonomous investment.
   D. a negative relationship between rate of interest and level of autonomous investment

3. The horizontally parallel section in the Keynesian speculative demand for money indicates that
   A. there is no speculative demand for money
   B. there is small but limited demand for money
   C. monetary policy becomes ineffective
   D. monetary policy becomes effective

4. According to Keynes, the transactions demand for money is mainly a function of
   A. rate of interest   B. profits
   C. wages   D. income

5. Total output and income in general will tend to increase during the period in which
   A. Planned aggregate savings < Planned aggregate investment
   B. Planned aggregate savings > Planned aggregate investment
   C. Planned aggregate savings = Planned aggregate investment
   D. Aggregate savings = Aggregate investment

6. There exists a proportional relation between consumption and disposable income, if

   A. MPC / APC   B. MPC < APC
   C. MPC = APC   D. MPC = 1

7. The demand for money in an economy is
   A. positively related to the level of income but negatively related to rate of interest
   B. positively related to rate of interest, but negatively related to the level of income
   C. positively related to both the level of income and rate of interest
   D. negatively related to both the level of income and rate of interest

8. Given the usual shapes of LM and IS curves if there is an increase in the supply of money
   A. the LM curve will shift to the right and the rate of interest will fall
   B. the LM curve will shift to the right and the rate of interest will increase
   C. the LM curve will shift to the left and the rate of interest will remain constant
   D. the LM curve will shift to the left and the rate of interest will increase

9. Which curve shows a positive relation between the percentage change in wages and the rate of unemployment?
   A. ISO cost curve
   B. ISO product curve
   C. Trade indifference curve
   D. Phillips's curve

10. Which of the following is not an instrument of monetary policy?
    A. Open market operation
    B. Bank rate
    C. Selective credit control
    D. Government spending

11. The theories which advocate a proportionate relationship between consumption and income are
    A. Absolute and Permanent income theories
    B. Absolute and Relative income theories
    C. Absolute and Life-cycle theories
    D. Relative and Permanent income theories

12. According to Keynes, investors prefer holding money rather than bonds when they expect
A. interest rates to remain constant
B. interest rates to rise
C. interest rates to fall
D. bond prices to rise

13. According to Tobbin's asset demand for money theory, an increase in current market yield
A. has no effect on the quantity of bonds or money demanded
B. increases the quantity of bonds demanded and decreases the quantity of money demanded
C. decreases the quantity of bonds demanded and increases the quantity of money demanded
D. increases both the quantity of bonds and the quantity of money demanded

14. M_3 is defined as
A. Currency with the public + demand deposits with banks
B. M_1 + Savings deposits with post-office savings bank
C. M_2 + Time deposits with banks
D. M_1 + Time deposits with banks

15. An increase in the supply of money will cause LM schedule to
A. remain unchanged   B. shift to the left
C. shift to the right   D. shift upwards

16. That, there exists a trade-off between unemployment and inflation in the short run, was first emphasized by
A. A.W. Phillips   B. P.A. Samuelson
C. R. M. Solow   D. James Tobin

17. Who advocated the view that 'savings and investment are always equal but they are not always in equilibrium'?
A. Alfred Marshall   B. J. M. Keynes
C. D. H. Robertson   D. K. Wicksell

18. The average M_1, balances held for transactions is
A. negatively related to the length of pay period and positively related to the income level
B. positively related to both length of pay period and income level.
C. negatively related to both length of pay period and income level
D. positively related to length of pay period and negatively to the income level.

19. Fisher's equation of exchange needs which of the following assumptions for turning it into a theory of money and prices?
A. Fall in the rate of interest
B. Bullish capital market
C. Constant velocity of circulation
D. Rising aggregate demand

20. Grasham's law relates to
A. money supply   B. money and prices
C. real output   D. employment

21. According to permanent income hypothesis, all increases in
A. permanent income are saved
B. permanent income are consumed
C. transitory income are saved
D. transitory income are consumed

22. Given the supply of high power money, if the rate of interest goes up, the value of credit-multiplier
A. increases
B. decreases
C. remains unchanged
D. the two are unchanged

23. Which of the following statements is correct?
A. The LM curve shows speculative demand for money
B. The LM curve shows a drop in financial investment
C. The LM curve shifts to the right when liquidity preference increases
D. The LM curve shifts to the left when money supply increases.

24. According to Keynes, there is speculative demand for money because
A. people like to speculate in the stock market
B. there is consideration risk in holding M_1 balances
C. money, at times, may be a better store of value than long term bonds
D. money always provides a certain higher return than long term bonds

25. Which one of the following statements describe correctly the nature of Fisher's and Cambridge equation ?
A. Fisher's equation is behavioural while Cambridge equation is mechanical
B. Fisher's equation is mechanical while, Cambridge equation is behavioural
C. Both equations are behavioural
D. Both equations are mechanical

26. Which one of the following is not an assumption of classical economics?
A. Supply creates its own demand
B. Mobility of factors of production
C. Flexible wage rates
D. Income as a source of savings

27. According to life cycle hypothesis, consumption is related to
A. current income
B. post peak income

C. expected life time income
D. price expectations over life time

28. The demand for money is
   A. positively related to income level and rate of interest
   B. negatively related to income level and positively related to rate of interest
   C. negatively related to income level and positively related to rate of interest
   D. positively related to income level and negatively related to rate of interest

29. Crowding out effect will occur when
   A. a decrease in money supply raises the rate of interest which crowd out interest sensitive private spending
   B. a reduction in income taxes causes higher interest rates which crowd out private sector spending
   C. an increase in taxes for the private sector reduces disposable income and spending
   D. a reduction in government spending causes induced consumption spending to fall.

30. What are the necessary and sufficient conditions for the savings and investment to be in equilibrium?
   I.   equality of savings and investment
   II. full operation of multiplier
   III. consumption lagging behind income
   IV. incomes catching up with prices
   Choose your answer from the codes below
   A. I only   B. I and II
   C. II and II   D. I and IV

31. If the MPC is 0.6, the investment multiplier will be
   A. 1.67   B. 2.5
   C. 6.0   D. 4.0

32. Actual saving always equal to
   A. ex-ante investment
   B. planned investment
   C. ex-post investment
   D. planned less unintended investment

33. The transactions demand for money is most closely related to money functioning as a
   A. standard of value   B. store of value
   C. medium of exchange   D. unit of account

34. The value of money varies
   A. directly with the interest rate
   B. directly with the price level
   C. directly with the volume of employment
   D. inversely with the price level

35. Cost-push inflation occurs when the aggregate
   A. demand curve shifts rightward
   B. demand curve shifts leftward

C. supply curve shifts rightward
D. supply curve shifts leftward

36. The Phillips curve suggests trade off between
   A. economic growth and full employment
   B. unemployment and income equality
   C. the level of unemployment and price level stability
   D. price level stability and income equality

37. Say's law of market provides the basis of
   A. Classical theory of full employment
   B. Keynesian theory of full employment
   C. Malthusian theory of over-production
   D. Marxian theory of exploitation

38. According to Friedman's theory of consumption function the relationship between permanent component of aggregate consumption and aggregate income is
   A. linear, but not proportional
   B. quadratic
   C. non-linear
   D. proportional

39. Keynesian liquidity preference theory postulates that the aggregate demand for money in a economy is
   A. inversely related to the rate of interest at the levels
   B. inelastic with respect to the rate of interest at sufficiently low rates of interest
   C. not affected by the interest rate at all
   D. directly proportional to the rate of interest

40. Money is
   A. a liability
   B. a claim
   C. somebody's claim and somebody else's liability
   D. None of the above

41. Which of the following is not a function of money?
   A. Medium of exchange
   B. Unit of amount
   C. Standard of deferred payments
   D. Store of metal

42. People tend to demand money for the so called precautionary motive because
   A. they bear a severe fall in the rate of interest
   B. they wish to make some provision against unforeseen contingencies
   C. they wish to keep cash for their day-to-day purchases
   D. they believe that the price of bonds may rise suddenly

43. Value of money
   A. is inversely related to the price level
   B. is directly related to the price level

C. is independently of the price level

D. None of the above

44. Irving Fisher believed the price of money to be determined by the
A. level of investment   B. elasticity of demand
C. quantity of money   D. velocity of money

45. 'Fiat money' is that which is
A. accepted by overseas banks only
B. decreased as money by the government
C. accepted temporarily in lieu of gold
D. backed by gold or silver

46. "Money is anything which is widely accepted in payment for goods; or in discharge of the other kinds of business obligation." Who has given this definition of Money?
A. Sir Robertson   B. Marshall
C. J.S. Mill   D. Keynes

47. Which of the following would not be considered a near money?
A. saving and loan shares
B. time deposits
C. treasury deposits
D. demand deposits

48. Which of the following is an instance of quasi-money?
A. Demand deposits   B. Coins
C. Bills of exchange   D. Furniture

49. 'High Powered Money' consists of
A. currency, reserves and other obligations of the Central Bank
B. all the liabilities of the commercial banks
C. currency and demand deposits
D. demand and time deposits liabilities only

50. Gresham's law states that
A. good money drives bad money out of circulation
B. bad money drives good money out of circulation
C. good money promotes bad money in the system
D. bad money promotes good money in the system

51. Which of the following conditions should be fulfilled, so that a coin can be called token money?
A. When its intrinsic (metallic) value is greater than its face value
B. When its intrinsic value is less than its face value
C. When its intrinsic value is equal to its face value
D. When its intrinsic value is equal to or greater than its face value

52. Fisher's quantity theory is explained by his famous equation of exchange given as
A. MV = PT   B. MP = VT
C. MT = PV   D. None of these

53. The term V in the equation of exchange measures
A. the value of money as determined by its gold backing
B. the number of a times a unit of money enters into circulation per unit of time
C. the value of money in circulation
D. the value of credit instruments in circulation

54. Money measure M_2 comprises
A. M_1 plus time deposits of all banks
B. M_2 plus saving deposits with Post Office Saving banks
C. M_1 plus national saving certificates
D. M_1 plus time deposits of the banks as well as saving deposits with post offices

55. In the given diagram, the Quantity Theory of money in its most rigid form applies to

A. Region AB   B. Region BC
C. Region CD   D. Region AB and BC

56. Which of the following components of demand for money marks a complete break from the classical theory?
A. Transactions   B. Precautionary
C. Speculative   D. None of these

57. Money measure M_3 is
A. Wider than M_1 B. More liquid than M_1
C. Narrower than M_1 D. None of these

58. The velocity of money is
A. The average turnover of money in a period, relative to the period's national income
B. The ratio of money demand to income
C. The ratio of money supply to income
D. The ratio of money demand to money supply

59. A large speculative demand for money is likely to exist when
A. people wish to borrow money in order to speculate on the stock exchange
B. the current rate of interest is high
C. the current rate of interest is lower than people expect it to be in the near future
D. people expect the prices of goods and services to rise

60. The neoclassical Cambridge approach viewed the amount of money demanded as a function of

A. money income   B. interest rate
C. both A and B   D. neither A nor B

61. Friedman's demand function is

A. $VY = \dfrac{PR}{M}$

B. $V = \dfrac{PT}{M}$

C. $M = F (P, Y \dfrac{1}{P}\dfrac{dp}{dt}, r_b, r_e, w, u)$

D. $P = \dfrac{M}{IXT}$

62. The main distinguishing feature between money market and capital market is based on the
A. cost of credit   B. term of credit
C. use of credit   D. user of credit

63. Commercial banks are regarded as creators of money because
A. they buy securities from the Central Bank
B. their loans create deposits
C. they are bound to honour their obligations
D. None of the above

64. Which one of the following is not an asset of the commercial banks, but in fact a liability?
A. Cash in hand   B. Money at call
C. Paid up capital   D. Investments

65. Moral suasion is
A. a term descriptive of the corrupt practices of many banks
B. a term applied to banks that are conservative in their banking practices
C. persuasion of banks to adhere to Central Bank desires
D. None of the above

66. The following are the assets of a commercial bank
1. Advances   2. Bills discounted
3. Special deposits   4. Money at call
5. Cash   6. Investment
The order of these assets as regards profitability is
A. 1, 6, 2, 3, 4, 5   B. 1, 2, 3, 4, 6, 5
C. 5, 2, 4, 1, 6, 3   D. 5, 4, 2, 6, 1, 3

67. Banks create credit
A. out of nothing
B. on the basis of their securities
C. on the basis of their toal assets
D. on the basis of their cash deposits

68. Maintaining a cash reserve ratio of 1/5, with primary deposits of ₹ 100, the total derivative deposits created by banks would be
A. ₹ 100   B. ₹ 250
C. ₹ 400   D. None of the above

69. Which of the following are motives for holding money, according to Keynes
1. Transaction   2. Precaution
3. Speculation
A. 1 only   B. 2 only
C. 3 only   D. 1, 2 and 3

70. In a period of prosperity, credit creation is
A. small   B. heavy
C. unchanged   D. None of these

71. Increase in bank rates generally is followed by
A. an increase in market rate of interest
B. a fall in market rates of interest
C. a rise in the deposits rates but not the lending rates
D. a rise only in the lending rates

72. The "Unit banking" system is prevalent in
A. U.S.A   B. England
C. Canada   D. Australia

73. Essentially, the money market is a market for
A. long term loans
B. short term loans
C. second hand securities
D. overseas government securities

74. Which of the following is a legal tender in a modern economy?
A. Currency notes   B. Bank cheques
C. Bills of exchange   D. Promissory notes

75. In a multi-bank system
A. one bank alone multiplies deposits
B. some banks multiply deposits
C. all banks together multiply deposits
D. None of these

76. The 'bank deposit multiplier' shows
A. an inverse relationship between the reserve ratio and the total amount of deposits
B. an inverse relationship between the volume of currency and the volume of deposits
C. a complicated relationship between the rate of interest and money supply
D. reserve ratio has nothing to do with the volume of deposits

77. Maintaining a cash reserve ratio of 20% with primary deposits of ₹ 1000, the total derivative deposits created by banks would be
A. ₹ 5000   B. ₹ 1000
C. ₹ 4000   D. None of the above

78. An initial deposit of ₹ 10,000 is multiplied to ₹ 1,00,000 if the value of the deposit multiplier is
A. 10   B. 9
C. 8   D. 5

79. The gilt-edge market deals in
    A. Worn and torn currency notes
    B. Bullion
    C. Government securities
    D. Corporate bonds

80. Keynes term as 'active balances' the money held for
    A. the speculative motive only
    B. the transactions and precautionary motives
    C. the transactions motive only
    D. the precautionary motive only

81. Which of the following is not related to the selective controls of the central banks?
    A. Margin requirement on security purchases
    B. Maximum period of repaying consumer loans
    C. Minimum down payments on particular types of loans
    D. Maximum down payments on consumer loans

82. The 'bull speculators expect that in future the bond prices will
    A. fall   B. rise
    C. remain constant   D. fluctuate

83. One of the major qualitative control measures is
    A. bank rate policy
    B. open market operations
    C. reserve ratio requirements
    D. margin requirements

84. When the central bank sells securities, as a result
    A. the cash resources at the disposal of the commercial banks increase
    B. the cash resources at the disposal of the commercial banks get diminished
    C. the cash resources of the commercial banks remain unchanged
    D. None of the above

85. The treasury bill market deals in the bills issued by
    A. Firms   B. Banks
    C. Government   D. All of these

86. Under the liquidity trap condition
    A. all the asset holders turn bulls
    B. all the asset holders turn bears
    C. some turn bulls while some turn bears
    D. many turn bulls while some turn bears

87. Bond prices and bonds yields
    A. vary inversely
    B. are not related
    C. vary directly
    D. are related in the long run but not in the short run

88. Credit incurs
    A. no cost   B. some cost
    C. heavy cost   D. None of these

89. The item "money at call and short notice" in a bank's assets represents the bank's loans to
    A. industry and commerce
    B. overseas central banks
    C. the capital market
    D. the money market

90. A Central Bank differs from a commercial bank is that
    A. it has no branches
    B. it is the banker of the state
    C. it has administrative control over other banks
    D. None of the above

91. Of the following which is a cause of 'cost-push' inflation?
    A. Increased consumption expenditure
    B. A reduction in taxation
    C. Increase in demand
    D. Increase in wages and salaries

92. A demand pull inflation is caused by
    A. increase in interest rates
    B. Reduction in bank credit
    C. increased consumption expenditure
    D. reduction in wages

93. Inflation benefits
    1. Salary-earners   2. Pensioners
    3. Equity-holders   4. Debtors
    Select the right answer using the codes given below:
    A. 1, 2 and 3 only   B. 1 and 2 only
    C. 1, 3 and 4 only   D. 3 and 4 only

94. Deflation benefits
    1. Salary-earners   2. Pensioners
    3. Equity holders   4. Debtors
    Select the right answer using the codes given below:
    A. 1 and 2 only   B. 1 and 4 only
    C. 1, 2 and 3 only   D. 2, 3 and 4 only

95. During "inflation", the real income of wage earners
    A. Increases immediately
    B. Decreases immediately
    C. Increases after a time
    D. None of the above

96. "Inflation is unjust and deflation is expedient of the two, deflation is worse". This is the view of
    A. J. M. Keynes   B. J.R. Hicks
    C. Marshall   D. A.C. Pigou

97. LM curve expenses the relation of
    A. higher interest and higher level of real income
    B. lower interest and higher level of real income
    C. higher interest and lower level of real income
    D. both (B) and (C)

98. In which of the following situation, fiscal policy is must effective?

A. The IS schedule has a zero slope and LM schedule has a slope greater than zero

B. The IS schedule has a zero slope and LM schedule has an infinite slope

C. The IS and LM schedules have slope greater than zero

D. The IS schedule has a slope greater than zero and the LM schedule has a zero slope

99. Match the following column A to B :

	Column A		Column B
(a)	Relationship between unemployment and inflation.	1.	Kuznets curve
(b)	Tax revenue and tax rate	2.	Phillips curve
(c)	Relationship between growth rate and unemployment	3.	Laffer curve
(d)	Income and inequality	4.	Okun's curve

	(a)	(b)	(c)	(d)
A.	1	2	3	4
B.	4	1	2	3
C.	1	3	4	2
D.	4	2	1	3

100. The item chosen to serve as the medium of exchange should be
1. recognizable as money
2. portable
3. durable
4. homogeneous
Of the above statements
A. 1, 2 and 3 are correct
B. 1, 2 and 4 are correct
C. none is correct
D. all are correct

101. Demand deposits with banks are considered as money because they are
A. generally acceptable as a means of payment
B. more liquid than cash
C. held by the government
D. managed efficiently by bank managers

102. On which (one or more) of the following statement(s) is Friedman's re-statement of the quantity theory of money based?
1. An equi-proportionate change in all prices will change the demand for nominal money balances in the same proportion
2. Demand for real money balances varies proportionately with permanent real income.
3. Demand for money is perfectly interest-inelastic.
4. Demand for money is a stable function of a small number of variables.
Select the correct answer using the codes given below

A. 1   B. 1 and 4
C. 2 and 3   D. 1, 2, 3 and 4

103. If the supply of money exceeds the demand for money by 5%, then by how much does the rate of interest have to fall to restore market equilibrium, assuming interest elasticity of the demand for money to be – 0.5% and other things remaining unchanged?
A. 2.5%   B. 5%
C. 10%   D. 15%

104. As regards changes in interest rates, the most sensitive money-market is the
A. bill market
B. un-organised money market
C. call money market
D. collateral loan market

105. In a multi-bank system, with 20% cash reserve ratio, on a receipt of cash deposits of ₹ 100 crores, the banking system as a whole can create deposits to the extent of
A. ₹ 80 crore   B. ₹ 100 crore
C. ₹ 320 crore   D. ₹ 400 crore

106. The theory of open market operations assumes that
A. the velocities of both bank deposits and legal tender money have no relationship
B. the legal tender money has a higher velocity than bank deposits
C. the bank deposits have a higher velocity than legal tender money
D. the circulation of bank deposits and legal tender money has constant velocity

107. Consider the following statements:
The success of a policy of variable reserve requirement depends on the
1. maintenance of a fixed reserve ratio by the commercial banks
2. maintenance of little or no excess reserves by the commercial banks
3. presence of a developed money market
Of the above statements
A. 2 and 3 are correct   B. 1 and 2 are correct
C. 3 alone is correct   D. 1 and 3 are correct

108. The theory of open market operations assumes that
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C. 3 alone is correct   D. 1 and 3 are correct

110. Assertion (A) : Money is a link between the present and the future.
Reason (R) : Money is a store of value.
A. Both A and R are true and R is the correct explanation of A
B. Both A and R are true, but R is not a correct explanation of A
C. A is true, but R is false
D. A is false, but R is true

111. Assertion (A) : According to Baumol, the transactions demand for cash varies with respect to the square-root of the volume of transactions.
Reason (R) : Transaction demand for money is a function of income.
A. Both A and R are true and R is the correct explanation of A.
B. Both A and R are true, but R is not a correct explanation of A.
C. A is true, but R is false
D. A is false, but R is true

112. Assertion (A) : There would be no trade- off between inflation and unemployment even in the short run if people's expectations are rational.
Reason (R) : Rational expectations imply forecasting the future correctly.
A. Both A and R are true and R is the correct explanation of A.
B. Both A and R are true, but R is not a correct explnation of A.
C. A is true, but R is false
D. A is false, but R is true

113. Assertion (A) : The major distinguishing feature of a commercial bank is its ability to create money.
Reason (R) : It has a legal power to do so.
A. Both A and R are true and R is the correct explanation of A
B. Both A and R are true, but R is not a correct explanation of A
C. A is true, but R is false
D. A is false, but R is true

114. Match List-I with List-II and select the correct answer using the codes given below the lists :

List-I	List-II
(a) $C = 4 + 0.6\ y$	1. LM function
(b) $I = 80 - 5\ i$	2. IS function
(c) $0.3y - 20\ i - 150 = 0$	3. Consumption function
(d) $0.3y + 20\ i - 150 = 0$	4. Investment function

Codes:

	(a)	(b)	(c)	(d)
A.	3	4	1	2
B.	4	3	1	2
C.	3	4	2	1
D.	4	1	2	3

115. When income rises, the impact on the liquidity preference curve is that
A. it shifts to the left
B. it does not shift at all
C. it shifts to the right
D. there is a change in its slope

116. High powered money is
A. bank's reserves at the Central Bank
B. all loans and advances of banks
C. money held by banks
D. currency held by public and reserves with the Central Bank

117. Which one of the following pair is NOT correctly matched?
A. Inflationary Gap   : Keynes
B. Cash Balance Approach   : Pigou
C. Accelerator-Multiplier Analysis : Hicks
D. Equation of Exchange   : Marshall

118. A commercial bank holds the following types of assets:
1. Treasury bills
2. Loans and advances
3. Cash
4. Money at call and short notice
Select the correct answer using the codes given below:
A. 3, 4, 1, 2   B. 4, 1, 3, 2
C. 3, 2, 1, 4   D. 2, 4, 1, 3

119. Should the Reserve Bank wish to increase the cash with commercial banks. It could
A. release gold from its reserves
B. buy government bonds in the open market
C. prohibit transactions involving bills of exchange
D. increase the cash reserve ratio

120. Given the total investment expenditure, an increase in the propensity to save will lead to a
A. rise in income
B. rise in the rate of interest
C. fall in savings
D. fall in income

121. If the investment multiplier is 4, the relevant consumption function is given by
A. C = 28 + 0.75 Y
B. C = − 28 + 0.78 Y
C. C = 28 + 0.70 Y
D. C = 28 + 0.40 Y

122. Consider the following statements:
1. Bond prices and interest rates vary directly.
2. 'Supply creates its own demand' is known as Walra's Law.
3. The rate that equalizes the discounted cash flow expected from an investment in a capital asset to its supply price is the marginal efficiency of investment.
4. Disposable income varies inversely with a tax on personal income.
Which of the above statements are correct?
A. 3 and 4
B. 1 and 3
C. 2 and 4
D. 1, 2 and 3

123. Which of the following is consistent with the cross-sectional consumption function?
A. APC = MPC
B. MPC = O
C. APC > MPC
D. APC = O

124. The speculative demand for money depends on
A. interest rate
B. income
C. profit
D. output

125. Consider the following statements:
Classical economists believed that unemployment in an economy would persist because of
1. labour-saving technical progress.
2. deficiency in demand for goods.
3. Government intervention in the free working of the economy.
Which of the above statements is/are correct?
A. 1, 2 and 3
B. 1 and 2
C. 2 and 3
D. 3 alone

126. Keyne's theory of employment is
A. static theory
B. dynamic theory in Harrod's sense
C. dynamic theory discussing period analysis
D. theory of comparative statics

127. "Supply creates its own demand" this statement comes from
A. James Mill
B. J.B. Say
C. David Ricardo
D. J.S. Mill

128. Which one of the following was the most important recommendation of classical economists to solve the problem of unemployment
A. reduction in population
B. a general cut in money wages
C. a general cut in real wages
D. large public expenditure

129. If a consumption function coincides with 45% line then marginal propensity to consume will be

A. zero
B. unity
C. greater than unity
D. less than unity

130. According to Keynes, which one of the following statements is correct:
A. MEC and RI both are independent variables.
B. MEC and RI both are dependent variables.
C. MEC is independent and RI is dependent variables.
D. MEC is dependent and RI is independent variable.
[Here MEC stands for Marginal Efficiency of Capital and RI stands for Rate of Interest]

131. In Keynesian Economics, given the total investment expenditure an increase in the propensity to save will lead to a
A. fall in the quantity of saving
B. fall in income
C. rise in interest rate
D. rise in income

132. If the annual income velocity of money is 3, then the total stock of money in the economy will be
A. 3 times of GNP
B. 1/3 times of real GNP
C. 1/3 times of nominal GNP
D. 1/3 of the ratio of P to real GNP

133. Which one of the following is not a method of credit control?
A. Bank Rate
B. Credit Deposit Ratio
C. Cash Reserve Ratio
D. Statutory Liquidity Ratio

134. Reserve money includes
A. time deposit with the banks only
B. currency with the public and cash with banks
C. cash with banks only
D. cash with banks and Post Office Savings bank deposits

135. "The quantity theory of money is a theory of demand for money and not a theory of fluctuations of income and/or prices." The view has been given by
A. D.H. Robertson
B. I. Fisher
C. J.M. Keynes
D. M. Friedman

136. Structural inflation arises due to
A. increase in money supply
B. market imperfections
C. lack of complementary factors of production
D. increase in spending
Code : Select your answer from the codes given below
A. 1 and 2
B. 3 and 4
C. 2 and 3
D. 1 and 4

137. Which of the following can be regarded as near money?
A. Debit/credit Card
B. Bank Overdraft
C. Trade Credit
D. Time deposits with banks

138. Which one of the following is *not* a liability of a Commercial Bank?
A. Time deposits
B. Security holdings
C. Borrowings from the Central Bank
D. Deposits of other banks with it

139. According to Keynes, investors prefer to keep money instead of bonds when they hope that
A. rate of interest will fall
B. rate of interest will rise
C. price of bond will rise
D. rate of interest will remain unchange

140. Which combination represents the IS curve?
A. High interest rate and high income level
B. High interest rate and low income level
C. High interest rate and low saving level
D. High interest rate and high investment level

141. Natural rate of unemployment is that rate of unemployment which
A. occurs at full employment
B. occurs because of structural changes
C. generally is 6 to 8 per cent
D. all of the above

142. Bank rate is the rate
A. which is reference rate in all countries for interest structure.
B. at which the central bank rediscounts the first class gilt-edged securities of the banks
C. the rate which is given to the depositors of money with bank
D. the rate which is charged on loans given by banks.

143. The classical theory of money postulates that
A. more money will secure more growth.
B. more money will secure no growth but only inflation.
C. more money will increase the real and relative prices only.
D. during deflation a reduced velocity will end deflation

144. Statutory liquidity ratio of commercial banks means
A. the percentage of cash that banks keep with them under rules
B. the bank rate which is reference rate also
C. the ratio of government and other gilt-edged securities to liquid liabilities
D. the "reserve money"

145. If banks want to increase credit creation
A. they should increase interest rate to have more deposits
B. they should reduce the rate of interest
C. they should have high cash reserves with them
D. they should force investors to create demand for loans

146. Inflation is
A. always due to trade union pressure
B. not a condition but a movement of price rise
C. always self-liquidating
D. a planned rise in price

147. According to Keynes, transaction demand for money, L can be stated as (symbols have the usual meaning)
A. $L = K(y)$ B. $L = I(r)$
C. $L = K(y) + I(r)$ D. $L = Y - I$

148. Consider the following items
1. Currency with the public
2. Cash with banks
3. Post-office savings bank deposits
4. Time deposits with the banks
Reserve money includes
A. 1, 2 and 3   B. 2, 3 and 4
C. 1 and 2   D. 1, 2, 3 and 4

149. Supply of money remaining the same, where there is an increase in demand for money, there will be
A. a fall in the level of prices
B. an increase in the rate of interest
C. a decrease in the rate of interest
D. an increase in the level of income and employment

150. Fisher's equation of exchange establishes
A. direct relationship between money and prices
B. inverse relationship between money and prices
C. direct and proportionate relationship between money and prices
D. inverse and proportionate relationship between money and prices

151. Match the List I with List II and select the correct answer using the codes given below the lists

List I	List II
(a) Abstinence theory of interest	1. Knut Wicksell
(b) Time preference theory of interest	2. Irving Fisher
(c) Loanable funds theory of interest	3. N.W. Senior
(d) Liquidity preference theory of interest	4. J.M. Keynes

Codes:

	(a)	(b)	(c)	(d)
A.	2	3	1	4
B.	3	2	1	4
C.	3	2	4	1
D.	2	3	4	1

152. Which of the following account for the limited nature and scope of monetary policy in under-developed countries?
1. The money market is unorganised and hence the monetary management of the central bank is not wide.
2. The governments always resort to deficit financing as their budgetary policy for development
3. Money supply consists mainly of currency in circulation but the bank deposits from only a small portion of total money supply
4. Change in the bank rate and other monetary initiatives remain ineffective because of a large non-monetised sector.

Select the correct answer using the codes given below
A. 1, 3 and 4   B. 1, 2 and 3
C. 1, 2 and 4   D. 2, 3 and 4

153. Match the List I with List II and select the correct answer using the codes given below the lists

List I	List II
(a) A continuous increase in general price level	1. Hyper Inflation
(b) Raising prices deliberately to relieve depression	2. Disinflation
(c) Fall in prices without a decline in the existing level of employment, output and income	3. Stagflation
(d) Recession accompanied by inflation	4. Reflation
	5. Inflation

Codes:

	(a)	(b)	(c)	(d)
A.	5	1	2	4
B.	1	3	2	5
C.	1	4	5	3
D.	5	4	2	3

154. Consider the following statements:
1. A rise in the general level of prices may be caused by
2. A decrease in the aggregate level of output.
3. On increase in the effective demand

Of these statements
A. 1 alone is correct   B. 1 and 2 are correct
C. 2 and 3 are correct   D. 1, 2 and 3 are correct

155. Consider the following types of assets held by a commercial bank
1. Money at call and short notice
2. Government securities
3. Advances
4. Cash

The correct DECREASING order (highest to lowest) of liquidity of the given assets is
A. 4, 1, 3, 2   B. 1, 4, 3, 2
C. 1, 4, 3, 2   D. 4, 1, 2, 3

156. Consider the following factors
1. Cash withdrawal from the banking system by the public.
2. Cash reserve ratio to be maintained by commercial banks
3. Supply of currency notes by the central bank.
4. Willingness of the borrowers to take loans from commercial banks

Credit creation capacity of commercial bank is determined by
A. 1, 3 and 4   B. 2, 3 and 4
C. 1, 2 and 4   D. 1, 2 and 3

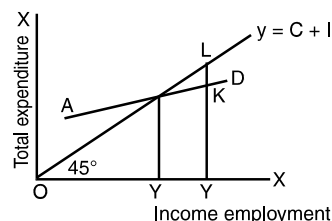**157.** In order to control inflation, the central bank should
A. sell government securities and lower the bank rate
B. sell goverment securities and raise the bank rate
C. purchase government securities and raise the bank rate
D. purchase government securities and lower the bank rate

158. Assuming that
Change in investment $\Delta I = 20$
marginal propensity to save (MPS) = 0.5
marginal propensity to investment (MPI) = 0
the change in income ΔY will be equal to
A. 25   B. 50
C. 100   D. 200

159. In the given diagram, LK represents

A. deficiency of demand
B. excess demand
C. deficiency of supply
D. excess supply

160. Given the total investment expenditure increase in the propensity to save will lead to a
A. fall in the rate of interest
B. fall in income
C. rise in interest rate
D. rise in income

161. Investment multiplier can be obtained from (symbols have the usual meaning)

A. $\dfrac{1}{1-\dfrac{\Delta C}{\Delta S}}$ B. $\dfrac{1}{1-\dfrac{\Delta C}{\Delta Y}}$

C. $\dfrac{1}{1+\dfrac{\Delta C}{\Delta S}}$ D. $\dfrac{1}{1+\dfrac{\Delta C}{\Delta Y}}$
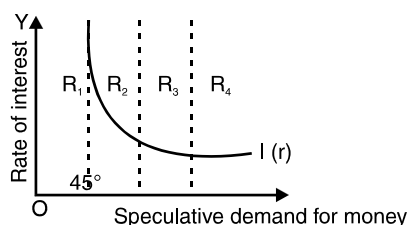
162. If there is an expectation of a rise in the price level, investment will be encouraged because
A. there will be an increase in the production of capital goods
B. there will be a rise in the prospective return from capital
C. people will save more and the interest rate will fall
D. the cost of production of capital goods will fall

163. The aggregate demand curve slopes downwards because an increase in price level leads to
A. reduction in real balances and increase in interest rate
B. increase in the interest rate and reduction in the aggregate spending
C. reduction in real balances alone
D. reduction in real balances, increase in interest rate and reduction in aggregate spending

164. According to permanent income hypothesis, the
A. long-run aggregate APC equals the long-run aggregate MPC
B. long-run aggregate APC is greater than the long run aggregate MPC
C. long-run aggregate APC is less than the long-run aggregate MPC
D. APC of ever individual is equal irrespective of different levels of income of families.

165. If there is an expectation of a rise in the price level, investment will be encouraged because
A. there will be an increased production of capital goods
B. there will be a rise in the prospective return from capital
C. the people will save more and the interest rate will fall
D. the cost of production of capital goods will fall

166. In the given diagram, speculative demand for money curve $l\,(r)$ has four regions R_1, R_2, R_3 and R_4. Liquidity trap is indicated by the regions

A. R_1 alone
B. R_1 and R_4
C. R_3 and R_4
D. R_4 alone

167. According to Keynes, marginal propensity consume
A. can never exceed unity

B. may exceed unity when dissaving occurs
C. can never exceed the average propensity to consume
D. is the reciprocal of the marginal propensity to save

168. Super multiplier refers to
A. interaction of the Multiplier and the Accelerator
B. reciprocal of the marginal propensity to consume
C. capital output ratio
D. budget multiplier

169. In the liquidity preference theory of interest of Keynes, money acts as a link between the present and the future in the case of
A. transactions demand for money
B. precautionary demand for money
C. business demand for money
D. speculative demand for money

170. Consider the following
1. Money supply M_2.
2. Saving deposits with Post Office saving banks
3. Net time deposits of banks.
4. Total deposits of the Post Office saving banks excluding NSC.
The measure of Money Supply M_3 would include
A. 1, 2, and 3   B. 1 and 3
C. 1 and 4   D. 3 and 4

171. Which of the following measures would result in an increase in the money supply in the economy?
1. Purchase of government securities from the public by the Central Bank.
2. Deposit of currency in commercial banks by the public.
3. Borrowing by the government from the Central Bank.
4. Sale of government securities to the public by the Central Bank.
5. Minting of more money by the Central Bank for circulation.
Codes:
A. 1,2 and 3   B. 2, 3 and 4
C. 1, 3 and 5   D. 2, 4 and 5

172. In the IS-LM frame work of analysis, an increase in money supply in an expansionary, monetary policy would lead to a
A. rightward shift of the IS curve
B. rightward shift to the LM curve
C. leftward shift of the IS curve
D. leftward shift of the LM curve

173. The balance sheet of a particular commercial bank is shown in the following table

Assets in (₹)		Liabilities and net worth (in ₹)	
Reserves	30,000	Capital stock	200000
Property	200000	Demand deposits	120000
Loans	50000		
Securities	40000		
Total	320000	Total	320000

Given that the cash reserve ratio is 20%, the excess reserve of this particular bank will be

A. ₹ 5000
B. ₹ 6000
C. ₹ 8000
D. ₹ 12000

174. **Assertion (A) :** It is possible to control either the money supply or the rate of interest but not both.

Reason (R) : Other things remaining the same, the demand for money depends inversely on the rate of interest.

A. Both A and R are true and R is the correct explanation of A.
B. Both A and R are true, but R is not a correct explanation of A.
C. A is true, but R is false
D. A is false, but R is true

175. Fisher's quantity theory of money has mainly been criticised because
A. it does not tell us as to how the changes in the quantity of money influence the price level
B. it overemphasises the demand for money by assuming supply of money as being constant
C. it analyses short term variations in the value of money
D. it emphasises too much on the price level

176. Grasham's law explains that
A. two grams of silver is equal to half gram gold for conversion
B. good money chases bad money out
C. velocity of circulation of money fluctuates rapidly
D. bad money drives good money out of circulation

177. Match List I (Economists) with List II (concepts) and select the correct answer using the codes given below the lists

List I (Economists)		List II (Concepts)
(a) Keynes	1.	Money illusion
(b) Modigliani	2.	IS-curve
(c) Hicks	3.	Life cycle hypothesis
(d) Pigou	4.	Liquidity trap

Codes:

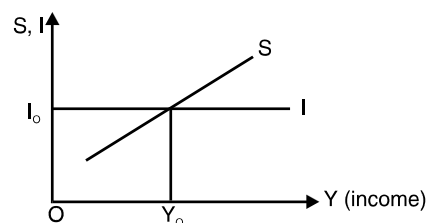|	(a)	(b)	(c)	(d)
A.	4	1	2	3
B.	2	3	4	1
C.	4	3	2	1
D.	2	1	4	3

178. The time-preference theory of interest is mainly associated with
A. J.M. Keynes
B. I. Fisher
C. K. Wicksell
D. M. Friedman

179. In respect of the diagram given on next page, consider the following statements
1. Saving (S) is autonomous.
2. Investment (I) is autonomous.
3. Saving is determined by income (Y).
4. Investment (I) is not autonomous.

Which of these statements are correct?

A. 2 and 3
B. 3 and 4
C. 1 and 4
D. 1 and 2

180. Assume consumption function of an economy to be $C = ₹ 30$ crore $+ 0.80Y$. Investment is ₹ 40 crore. Then, the equilibrium level of income is
A. 700 crore
B. 350 crore
C. 560 crore
D. 140 crore

181. The norms of behaviour which satisfy the requirements of social rationality of economic activity are established by
A. Positive economics
B. Normative economics
C. Business economics
D. Mathematical economics

182. M_2, money supply measure in India, constitutes
A. M_1 + all post-office deposits
B. M_1 + time deposits of commercial banks
C. M_1 + all post-office saving deposits
D. M_3 + all post-office deposits

183. Stagflation refers to
A. high inflation in periods of high unemployment
B. deflation in periods of stagnant employment
C. deflation in periods of high unemployment
D. high inflation in periods of full employment

184. According to the quantity theory of money, the price level rises if
A. there is a decrease in money supply
B. the velocity of circulation of money rises
C. the aggregate volume of transactions increases
D. the real demand for money rises

185. Let I = 5 + 0.2Y, S = – 15 + 0.3Y and $\bar{G}$ = 5 (where I = Investment, Y = National Income, S = Savings and $\bar{G}$ = Government Spending). What is the equilibrium level of Y?

A. 200   B. 100
C. 250   D. 300

186. Consider the following statements
1. Absolute Income Hypothesis is associated with Keynes.
2. S = – 20 + 0.4y and C = 20 + 0.6y yield the same investment multiplier
3. Investment multiplier rises whenever income tax is introduced in the system
4. Bond Price and interest rates are directly related.

Which of the above statements is/are correct
A. 1 alone   B. 2 and 3
C. 3 and 4   D. 1 and 2

187. Consider the following statements relating to classical theory of employment:
1. Classical theory is based on the assumption of full employment
2. Classical version of full employment is a situation where involuntary unem-ployment is present
3. Classical version of full employment is consistent with seasonal unemploy-ment and frictional unemployment
4. Classical economists advocated wage cuts to reduce the unemployment level

Which of the above statements are correct?
A. 1, 2 and 3   B. 2, 3 and 4
C. 1, 3 and 4   D. 1 and 2

188. Which one of the following saving functions corresponds to the investment multiplier of 5?
A. S = – 28 + 0.25 Y
B. S = – 40 + 0.75 Y
C. S = – 60 + 0.20 Y
D. S = – 75 + 0.60 Y

189. Consider the following statements relating to classical theory of employment
1. Classical theory is based on the assumption of full employment
2. Classical version of full employment is a situation where involuntary unemployment is present
3. Classical version of full employment is consistent with seasonal unemployment and frictional unemployment
4. Classical economists advocated wage cuts to reduce the unemployment level

Which of the above statements are correct?
A. 1, 2 and 3   B. 2, 3 and 4
C. 1, 3 and 4   D. 1 and 2

190. When investment is negatively related to the rate of interest, the equilibrium output in the goods market is
A. unrelated to the rate of interest
B. inversely related to the rate of interest
C. positively related to the rate of interest
D. indeterminate

191. Consider the following statements denoting the relationship between marginal propensity to consume and value of multiplier
1. Higher the marginal propensity to consume, higher is the multiplier
2. Higher the marginal propensity to consume lower is the multiplier
3. When the marginal propensity to consume is one, multiplier takes the value of infinity

Which of the above statements is/are correct?
A. 1 alone   B. 2 and 3
C. 1, 2 and 3   D. 1 and 3

192. An increase in fiscal spending leads to
A. a shift of the Phillips curve to the right
B. a shift of the Phillips curve to the left
C. movement along the Phillips curve such that unemployment rises and inflation falls
D. movement along the Phillips curve such that unemployment falls and inflation rises

193. Consider the following statements
1. According to the accelerator model, investment demand is proportional to the change in GNP.
2. The real rate of interest is the nominal rate of interest plus the inflation rate.
3. The higher the real interest rate, the higher is the rental cost of capital.
4. Investment is a stock concept

Which of the above statements are correct?
A. 2 and 3   B. 1 and 2
C. 1 and 3   D. 1, 2, 3 and 4

194. 'The propensity to consume of an individual with respect to his disposable income and wealth depends on his age? The statement refers to the
A. relative income hypothesis
B. permanent income hypothesis
C. life-cycle hypothesis
D. absolute income hypothesis

195. When income falls, what happens to the liquidity preference curve?
A. It does not shift
B. It shifts to the left
C. It shifts to the right
D. It becomes parallel to the vertical axis

196. Consider the following statements:
1. If government expenditure increases the IS curve shifts to the right
2. If the taxes increase the IS curve shifts to the right
3. If the price level increases the LM curve shifts to the left
4. The more interest elastic the investment function, the more interest elastic will the IS curve

Which of the above statements are correct?
A. 2, 3 and 4
B. 1, 3 and 4
C. 1 and 2
D. 2 alone

197. The most liquid asset, next to cash, which the banks possess is
A. Advances to customers
B. Money at call
C. Treasury bills
D. Inland bills

198. Bank rate refers to the
A. interest rate at which Commercial Banks accept deposits from the public
B. rate at which Central Bank rediscounts bills of exchange of Commercial Banks
C. prime lending rate of Commercial Banks
D. interest rate at which Commercial Banks lend to the customers

199. The elasticity in respect of speculative demand for money, under the liquidity trap condition is
A. zero
B. one
C. greater than one
D. infinite

200. When the intrinsic value of money and its face value are equal, it is called
A. token money
B. full-bodied money
C. quasi-money
D. fiat money

201. Which one of the following is NOT an instrument of monetary policy?
A. Tariffs
B. Moral suasion
C. Open market operations
D. Credit rationing

202. Which one of the following according to Milton Friedman is NOT a key determinant of the demand for money
A. Aggregate wealth
B. Precautionary motive
C. Relative rates of return obtainable on different forms of assets
D. Physical non-human capital goods and human capital

203. A significant decrease in the demand for loans will force banks to
A. adjust their portfolios
B. sell securities to the Central Bank
C. resort to borrowings
D. raise the prime lending rate

204. Which one of the following factors affects velocity of circulation?
A. Time unit of income receipts
B. Frequency of transaction
C. Liquidity preference
D. All of the above

205. Which one of the following statements is correct in respect of equation of exchange $MV = PT$?
A. If M is doubled, leaving V and T unaffected, then P must double.
B. If M is doubled, leaving V unaffected then P will be halved.
C. If M and T are doubled, leaving V unaffected, then P will be halved
D. If M is doubled, V is halved, leaving T unaffected, then P gets multiplied 3 times

206. Match List-I (Name of the Economist) with List-II (concept/theory) and select the correct answer using the codes given below the lists:

List I		List II
(a) A.W. Phillips	1.	Central Bank
(b) Findlay Shirras	2.	Trade-off between wage and unemployment rate
(c) J.M. Keynes	3.	Theory of profit
(d) R.S. Sayers	4.	Taxable capacity
	5.	Liquidity trap

Codes:

	(a)	(b)	(c)	(d)
A.	5	4	1	2
B.	2	3	5	1
C.	5	3	1	2
D.	2	4	5	1

207. The Central Bank can decrease the bank credit component of the money supply by
A. lowering the cash reserve requirements
B. increasing the bank rate
C. lowering the bank rate
D. buying of government securities by the Central Bank

208. Which one of the following can be called as an instrument of selective credit control?
A. Fixing statutory liquidity requirements
B. Variation of bank reserve ratio

C. Fixing of margins for lending against specific securities

D. Altering discount rate

209. Which one of the following represents capital adequacy ratio for Commercial Banks?
A. Ratio of capital to risk-weighted assets
B. Ratio of capital to short-term deposits
C. Ratio of capital to non-performing assets
D. Ratio of capital to advances

210. Derivative deposit means
A. Cash deposited in a bank by an employee of a business firm
B. deposits created by a Commercial Bank out of its borrowings from the RBI
C. cash deposited in a bank by another Commercial Bank
D. deposits created by a bank out of its credit provided to the customer of the bank

211. **Assertion (A) :** Real rate of interest is better 206 indicator of returns on savings than nominal rate of interest
Reason (R) : The real rate of interest is estimated after removing the effect of the expected rate of inflation.
A. Both A and R are true and R is correct explanation of A
B. Both A and R are true, but R is not a correct explanation of A
C. A is true, but R is false
D. A is false, but R is true

212. Match List-I with List-II and select the correct answer using the codes given below the lists:

List I	List II
(a) $C = 9 + 0.1\ Y$	1. IS relation
(b) $0.25\ Y - 20i - 193 = 0$	2. Consumption relation
(c) $0.06Y + 29i - 500 = 0$	3. Investment relation
(d) $I = 50 - 10i$	4. LM function

Codes:

	(a)	(b)	(c)	(d)
A.	4	3	2	1
B.	4	3	1	2
C.	2	4	3	1
D.	2	4	1	3

213. Excess of ex-ante savings over ex-ante investment means that
A. income will fall
B. income will rise
C. income will remain the same
D. price will rise and inventories will accumulate

214. Consider the following statements
1. Points to the left of the IS curve indicate excess supply of goods.
2. Points to the right of the LM curve indicate excess demand for money.
3. Points to the right of the IS curve indicate excess supply of money.
4. Points to the right of the IS curve indicate excess supply of goods.
Of these statements
A. 2 and 4 are correct
B. 1 and 3 are correct
C. 2 and 3 are correct
D. 1, 2 and 3 are correct

215. Match List-I with List-II and select the correct answer using the codes given below the lists:

List I	List II
(a) Life cycle Hypothesis	1. Keynes
(b) Permanent Income Hypothesis	2. Duesenberry
(c) Absolute Income Hypothesis	3. Friedman
(d) Relative Income Hypothesis	4. Ando-Brumberg Modigliani

Codes:

	(a)	(b)	(c)	(d)
A.	4	3	1	2
B.	4	3	2	1
C.	3	2	1	4
D.	3	2	4	1

216. The author of employment multiplier is
A. Lord Beveridge   B. K.M. Keynes
C. R.F. Kahn   D. J.R. Hicks

217. In a two sector economy, the saving and investment functions are as follows
$$S = -10 + 0.2Y$$
$$I = -3 + 0.1Y$$
What will be the equilibrium level of income?
A. 70   B. 80
C. 90   D. 100

218. The IS-LM model has been formulated by
A. J.R. Hicks   B. F. Modigliani
C. P.A. Samuelson   D. J.M. Keynes

219. The speculative demand for money is
A. interest determining
B. interest determined
C. income determining
D. income determined

220. Which one of the following is represented by M_3?
A. M_1 + post office savings bank deposits

B. Currency with the public + demand deposits with banks

C. M_1 + time deposits with bank

D. M_2 – post office savings bank deposits

221. Consider the following statements:
Unanticipated inflation is likely to benefit
1. Debtors.
2. Life Insurance policy holders.
3. Persons having fixed deposits with companies.
4. Persons having fixed deposits with banks.
Of these statements
A. 1 alone is correct
B. 1, and 2 are correct
C. 1, 2 and 3 are correct
D. 2, 3 and 4 are correct

222. Consider the following statements:
Money supply in India can be increased if
1. RBI puts out more paper money for circulation.
2. the commercial banks expand their credit operations.
3. the Central Government gives more grants to the states.
4. the Government of India borrows from the RBI.
Of these statements
A. 1, 2 and 3 are correct
B. 2, 3 and 4 are correct
C. 1, 3 and 4 are correct
D. 1, 2 and 4 are correct

223. Income velocity of money depends upon
A. frequency of spending money income by the people
B. frequency of earning and spending of money
C. the speed with which money stock moves from income earners to the producers of final goods
D. liquidity preference of cash by the people for the purchase of final goods.

224. Match List-I with List-II and select the correct answer using the codes given below the lists

List I	List II
(a) Investment Banks	1. Two or more separately incorporated banks brought under the control of a holding company.
(b) Group Banking	2. Provide credit on long term basis
(c) Chain Banks	3. Banks linked together through deposits by smaller banks of some of their cash reserves with bigger banks
(d) Correspondent Banking	4. Branches of the bank linked together for better mobilisation of deposits
	5. Banks brought under common control by a device other than the holding company

Codes:

	(a)	(b)	(c)	(d)
A.	1	3	4	5
B.	2	5	4	1
C.	2	1	3	5
D.	2	1	5	3

225. Which one of the following methods can be used as an instrument of qualitative control of credit by the Central Bank?
A. Bank Rate Policy
B. Open Market Operations
C. Changes in Margin Requirements
D. Variations in Reserve Ratio

226. **Assertion (A) :** Y = C + I (where Y = National Income, C = Consumption, I = Investment)
Reason (R) : C and I are important determinants of national income
A. Both A and R are true and R is the correct explanation of A.
B. Both A and R are true, but R is not correct explanation of A
C. A is true, but R is false
D. A is false, but R is true

227. **Assertion (A) :** An investor will invest in a capital asset.
Reason (R) : Marginal Efficiency of Capital (MEC) $\geq$ market rate of interest.
A. Both A and R are true and R is the correct explanation of A.
B. Both A and R are true, but R is not correct explanation of A.
C. A is true, but R is false
D. A is false, but R is true

228. **Assertion (A) :** People's desire for transactions balances increases with increase in income.
Reason (R) : People spend an increasing proportion of their income on consumption.
A. Both A and R are true and R is the correct explanation of A.
B. Both A and R are true, but R is not correct explanation of A.
C. A is true, but R is false.
D. A is false, but R is true.

229. Assertion (A) : Reserve Bank of India raises money supply through purchase of securities in the money market.

Reason (R) : Increase in money supply may result in the expansion of investment and employment.

A. Both A and R are true, and R is the correct explanation of A.

B. Both A and R are true, but R is not correct explanation of A.

C. A is true, but R is false.

D. A is false, but R is true.

230. In an economy where people always consume half of any additional income and save the other half, an additional government expenditure of ₹ 20,000 can create an additional income of

A. ₹ 10,000   B. ₹ 40,000

C. Zero   D. ₹ 20,000

231. When a linear consumption function undergoes a parallel shift downwards the investment multiplier will

A. fall   B. rise marginally

C. remain as before   D. become double

232. If the consumption function passes through the origin, then APC = MPC it must be

A. linear without any intercept

B. non-linear without any intercept

C. linear with a negative intercept on the income axis

D. linear with a positive intercept on the consumption axis

233. Consider the following

1. Investment demand.

2. Aggregate demand.

3. Rate of interest.

4. Money supply.

The correct sequence for the impact of change in money supply visualised by Keynes is

A. 1, 2, 3, 4   B. 2, 1, 3, 4

C. 4, 3, 2, 1   D. 4, 3, 1, 2

234. If the rate of interest is greater than zero, it follows that

A. present goods and future goods always have an equal value

B. present goods are worth less than future goods

C. present consumption is worth more than future consumption

D. present consumption is worth less than future consumption

235. Given the consumption function

$$C = 205 + 0.9Y$$

What is the multiplier?

A. 0.09   B. 10.0

C. 0.9   D. 9.00

236. The Phillip's curve is the schedule showing the relationship between

A. aggregate supply and demand

B. total savings and investments

C. the rate of unemployment and rate of inflation

D. demand for and supply of loanable funds

237. Suppose that the money supply in an economy is constant and the demand for money is a function of income and interest rate, then if the level of income increases there will be

A. a decrease in the quantity of money demanded and an increase in the rate of interest

B. an increase in the quantity of money demanded and an increases in the rate of interest

C. a decrease in the quantity of money demanded and increase in the rate of interest

D. an increase in the quantity of money demanded and decrease in the rate of interest

238. Which one of the following is a correct and likely sequence? (M is money supply, i is nominal rate of interest and I is investment)

A. M down, i down, I down, GNP down.

B. M down, i down, I up, GNP up.

C. M down, i up, I down, GNP down

D. M up, i up, I up, GNP up

239. If the annual income velocity of money is 3, then the total money stock in the economy is

A. 3 times the nominal GNP

B. 1/3 of real GNP

C. 1/3 of nominal GNP

D. 1/3 of the ratio of P to real GNP

240. Consider the following statements
The money-supply to the economy will increase if the Central Bank

1. supplies credit to the central government.

2. provides credit to the commercial banks.

3. provides credit to the state governments.

Of these statements

A. 2 alone is correct

B. 1 and 3 are correct

C. 1 and 2 are correct

D. 1, 2 and 3 are correct

241. Which one of the following is an example of "open market operations"?

A. Sale of gold by Reserve Bank of India to goldsmith

B. Sale of jute by Jute Corporation of India from its stocks to jute mills

C. Sale of government securities by the Reserve Bank of India to commercial banks and other Financial organisations on its own initiative

D. Sales of dollar by the Reserve Bank of India to exchange banks at their request

242. The objective of selective credit controls is mainly to
   A. selectively allocate credit to commercial banks
   B. selectively allocate credit among borrowers
   C. regulate the quantity of demand deposits created by commercial banks
   D. regulate the quantity of credit created by commercial banks

243. Portfolio theory of the demand for money assumes that the individual
   A. disregards risk   B. is risk neutral
   C. is risk lover   D. is risk averse

244. An instrument of qualitative credit control in India is
   A. open market operation
   B. credit rationing
   C. change in reserve ratio
   D. bank rate policy

245. If the Reserve Bank of India sells securities in the market, it will result in
   A. an immediate change in the bank rate
   B. a fall in the market rate of interest
   C. an increase in loans to banks customers
   D. a reduction in bank deposits

246. If MPC = APC for all levels of income (Y), then the corresponding consumption function will be
   A. $C = a + b\,Y$ B. $C = b\,Y$
   C. $C = b\,Y^2$ D. $a + b\,Y^2$

247. The accelerator theory of investment relates the current rate of investment to the
   A. long-term rate of interest
   B. short-term rate of interest
   C. current level of output
   D. change in the level of output

248. If the consumption functions undergoes a parallel shift upwards, then the investment multiplier will
   A. rise   B. fall
   C. remain constant   D. be double

249. Match List I with List II and select the correct answer using the codes given below the lists:

List I	List II
(a) J. M. Keynes	1. Permanent income hypothesis
(b) J. Duesenberry	2. Life cycle hypothesis
(c) M. Friedman	3. Relative income hypothesis
(d) F. Modigliani	4. Absolute income hypothesis

Codes:

	(a)	(b)	(c)	(d)
A.	4	3	2	1
B.	3	4	1	2
C.	3	4	2	1
D.	4	3	1	2

250. If MPS rises then the equilibrium level of output will
   A. rise   B. fall
   C. remain constant   D. be indeterminate

251. According to classical theory, a 10 percent increase in money supply will
   A. increase money wage rates by 10 percent, but have no effect on real wages
   B. increase real wage rates by 10 per cent
   C. decrease real wage rates by 10 per cent
   D. increase both money wage rates and real wage rates by 10 per cent

252. The equation $0.5\,Y + 50^i - 240 = 0$ (where Y denotes national income and i the rate of interest), is that of a/an
   A. Consumption function
   B. Investment function
   C. IS function
   D. LM function

253. An increase in the money supply results in
   A. a change in the slope of the LM curve
   B. rightward shift of the LM curve
   C. no change in the LM curve
   D. leftward shift of the LM curve

254. According to Keynes, which one of the following is the basic cause of involuntary unemployment?
   A. A general deficiency in the demand for goods and services
   B. The reluctance of workers to move to other parts of the country where there is work
   C. The inability to change occupations because of lack of the necessary skills
   D. Workers ignorance of opportunities of employment in other occupations and districts

255. Speculative demand for money would increase if
   A. prices of securities are expected to rise
   B. prices of goods are expected to fall
   C. the interest rate is expected to be constant
   D. the interest rate is expected to rise

256. Consider the following liquid assets
   1. Demand deposits with the banks
   2. Time deposits with the banks
   3. Savings deposit with the banks
   4. Currency

The correct sequence of these assets in the decreasing order liquidity is
A. 1, 4, 3, 2
B. 2, 3, 4, 1
C. 2, 3, 1, 4
D. 4, 1, 3, 2

257. The relationship between Fisher's V and K in Cambridge Equation Exchange is

A. $V = \dfrac{1}{k}$
B. $V = \dfrac{1}{1+k}$

C. $V = 1 + k$
D. $V = 1 - k$

258. Under the 'liquidity trap' situation the liquidity preference curve
A. is perfectly inelastic
B. is perfectly elastic
C. intersects the horizontal axis
D. intersects the vertical axis

259. The Bank Rate means the rate which the
A. Commercial banks offer on savings deposits
B. Commercial banks offer on current accounts deposits
C. Commercial banks charge on short-term loans
D. Central Bank charges in rediscounting first-class bills of exchange

260. Consider the following items included in a Balance Sheet:
1. Demand deposits
2. Borrowings from other banks
3. Cash kept with other banks
4. Endorsement of bills of exchange
Which of these are shown in the liability column of the Balance Sheet of a commercial bank?
A. 1, 2 and 3
B. 1, 2 and 4
C. 1 and 3
D. 2 and 4

ANSWERS

1	2	3	4	5	6	7	8	9	10
A	B	C	D	A	C	A	A	D	D
11	12	13	14	15	16	17	18	19	20
A	B	B	D	C	A	B	B	C	A
21	22	23	24	25	26	27	28	29	30
C	B	A	A	B	B	C	D	D	B
31	32	33	34	35	36	37	38	39	40
B	C	C	D	D	C	A	A	A	C
41	42	43	44	45	46	47	48	49	50
D	B	A	C	C	A	B	C	A	B
51	52	53	54	55	56	57	58	59	60
B	A	B	B	C	C	A	A	C	A
61	62	63	64	65	66	67	68	69	70
C	B	B	C	C	C	D	C	D	B
71	72	73	74	75	76	77	78	79	80
A	A	B	A	C	B	C	A	C	B
81	82	83	84	85	86	87	88	89	90
D	B	D	B	C	B	A	B	D	B
91	92	93	94	95	96	97	98	99	100
D	C	D	A	B	A	A	B	B	D
101	102	103	104	105	106	107	108	109	110
A	D	A	C	D	B	D	B	D	A
111	112	113	114	115	116	117	118	119	120
B	A	C	A	C	D	D	D	B	D
121	122	123	124	125	126	127	128	129	130
A	A	A	A	D	B	B	B	B	B
131	132	133	134	135	136	137	138	139	140
B	B	B	D	D	C	A	B	B	B
141	142	143	144	145	146	147	148	149	150
D	B	B	C	C	B	A	A	B	C

151	152	153	154	155	156	157	158	159	160
B	A	D	D	D	C	B	B	B	B
161	162	163	164	165	166	167	168	169	170
B	B	D	A	B	D	A	A	D	B
171	172	173	174	175	176	177	178	179	180
A	B	B	A	A	D	C	B	A	B
181	182	183	184	185	186	187	188	189	190
B	C	A	B	A	D	C	C	C	B
191	192	193	194	195	196	197	198	199	200
D	D	C	C	B	B	B	B	D	B
201	202	203	204	205	206	207	208	209	210
A	B	A	D	A	D	B	C	C	D
211	212	213	214	215	216	217	218	219	220
A	D	A	A	A	C	A	A	B	C
221	222	223	224	225	226	227	228	229	230
A	D	C	C	C	A	A	A	A	B
231	232	233	234	235	236	237	238	239	240
C	A	B	C	B	C	B	C	B	D
241	242	243	244	245	246	247	248	249	250
C	B	C	B	D	B	D	C	D	B
251	252	253	254	255	256	257	258	259	260
D	C	B	A	D	C	A	B	D	B

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