Course – B.A (Hons) Business Economics

Paper – Macro Economics and Applications 2

Semester - IV

1. The average propensity to consume is measured by
   a. Y/C
   b. C*Y
   c. C+Y
   d. C/Y

2. Friedman Theory of Consumption focuses on
   a. Past Income
   b. Current Income
   c. Disposable Income
   d. Permanent Income

3. An Increase in Marginal Propensity to consume will
   a. Lead to the consumption function become steeper
   b. Shift the consumption function upwards
   c. Shift the consumption function downwards
   d. Shift the saving function upwards

4. If the Keynesian consumption function is C = 10 + 0.8Yd, disposable income is Rs 1000, what is the marginal propensity to consume
   a. 0.8
   b. 800
   c. 810
   d. 0.81

5. Milton Friedman proposed the
   a. permanent income hypothesis
   b. life-cycle hypothesis
   c. absolute income hypothesis
   d. relative income hypothesis
   e. saving equals investment hypothesis

6. The life-cycle hypothesis on consumption behavior suggests that people at various stages of the life cycle,
   a. spend everything they earn so saving ends up at zero
   b. increase their marginal propensity to consume as income increases
   c. decrease their marginal propensity to consume as income increases
   d. have differing MPCs, which is still consistent with a constant MPC for the economy
   e. consume according to class status

7. Research suggests that the short-run consumption curve ______________________ while the long-run consumption curve ________________________.
   a. is quite steep; is very flat
   b. intersects the vertical axis above the origin; runs through the origin

c. has a large average propensity to consume; has a large marginal propensity to consume
d. has a large marginal propensity to consume; has a small marginal propensity to consume
e. has a large marginal propensity to consume; has a large average propensity to consume

8. The Mundell-Fleming framework studies ________, _________ economies in a world with _____ financial markets and _____ capital mobility.
   a. Small, Open, integrated, free
   b. Large, open, integrated, free
   c. Small, mercantilist, integrated , free
   d. Large, open, restricted, free
9. The Mundell – Fleming model assumes
   a. Price level is fixed, where as in IS – LM model prices are flexible
   b. Price level is flexible, where as in IS – LM model prices are fixed
   c. As in the IS model, prices are fixed
   d. As on the IS model, prices are flexible
10. In a small open economy with the floating exchange rate, an effective policy to decrease equilibrium output is to
    a. Decrease government spending
    b. Decrease taxes
    c. Increase the money supply
    d. Decrease the money supply

11. In the Solow Growth Model holding everything else constant, an increase in the rate of depreciation will
    a. Decrease the level of steady state capital per worker.
    b. Increase the level of steady state capital per worker.
    c. Have no effect on the level of steady state capital per worker

12. The Golden Rule of Capital in the Solow Growth Model is that level of steady state capital per worker where

    I. Output per worker is maximized.

    II. Consumption per worker is maximized.

    III. The economy has the optimal saving rate, s_{gold}.

    a. Statements I, II and III are correct.
    b. Statements I and II are correct.
    c. Statements I and III are correct.
    d. Statements II and III are correct.
    e. Statement II is correct.

13. In the Solow Growth Model, the steady state level of capital per worker occurs when
    a. Output per worker is maximized and constant.
    b. Consumption per worker is maximized and constant.
    c. The level of investment per worker equals the amount of capital per worker that depreciates during the particular time period.
    d. All of the above statements are true for the steady state level of capital per worker in the Solow Growth Model.

14. In the Solow Growth Model and assuming the steady state, the larger the savings rate, holding everything else constant, the

   a. Higher the consumption per worker.
   b. Higher the steady state level of output per worker.
   c. The greater the change in capital.
   d. The lower the depreciation rate since this economy is investing heavily in new capital and will therefore have little capital that depreciates over time.

15. In a Solow Growth Model with no population growth and no technological change, consumption per worker will be maximized in the steady state when

   a. Output per worker is maximized.
   b. Investment per worker is maximized.
   c. The marginal product of capital per worker is equal to the depreciation rate.
   d. The marginal product of labor is equal to the depreciation rate.

16. When investment per worker is greater than the amount of capital per worker that depreciates during the same period of time, then it must be the case that

   a. The steady state level of capital per worker is larger than the current level of capital per worker.
   b. The steady state level of capital per worker is smaller than the current level of capital per worker.

17. In the Solow Growth Model it is impossible to have too high a savings rate since a higher savings rate is always more beneficial than a lower savings rate.

   a. True
   b. False

18. If the steady state rate of savings is too low, then the policymaker who successfully raises the saving rate will enact a policy that

   a. Causes consumers in this economy to reduce their consumption per worker initially due the higher savings rate.
   b. Causes investment spending to fall initially since the level of savings is too low for this economy.
   c. Alters the marginal product of capital per worker for this economy.
   d. Alters the steady state level of depreciation schedule for this economy.

19. According to the life-cycle theory of consumption, people

   a. consume less than they earn in the beginning of their life cycle
   b. consume less than they earn in their retirement years
   c. consume more than they earn between their early working years and retirement
   d. tend to save the most during their working years

20. The nominal interest rates are different from real interest rates because

   a. Real interest rate take in to account the inflation
   b. Real interest rate takes in to account the changes in houses prices
   c. Nominal rates are rates which apply to borrowers and not lenders.
   d. Real interest rates are the current bank lending rates.

21. Quantitative easing is the common name for which policy instrument

   a. Asset purchasing by the central bank
   b. Lowering the interest rate at which commercial bank lend each other.
   c. Asset selling by the central bank
   d. When a central bank reduces interest rates

22. A significant rise in interest rates is most likely to lead to an increase in

   a. Investment spending

b. Unemployment
c. Short run aggregate supply
d. Consumer Spending

23. Which of these is not a monetary policy tool
a. Discount rate
b. Open Market operations
c. Balance account
d. Reserve requirements

24. When RBI reduces Statutory Liquidity Ratio by 50 basis points , which of the following is likely to happen?

a. India's GDP growth rate increases drastically.
b. Foreign Institutional Investors may bring more capital in to our country.
c. Scheduled Commercial Banks may cut their lending rates.
d. It may drastically reduce the liquidity to the banking system

25. Reverse Repo Rate is a tool used by RBI to?

a. Absorb liquidity
b. Inject liquidity
c. To keep liquidity at one level
d. None of these

26. Complete Milton Friedman famous proposition : " Inflation is always and everywhere a _________________ phenomenon
a. Budgetary
b. Monetary
c. Political
d. Policy

27. Economic theory suggest that _______________ interest rates are ___________ important than _____________ interest rates in explaining the market behaviour.
a. Real , less, nominal
b. Nominal, more, real
c. Real, more, nominal
d. Market, more, real

28. A balance of Payment ____________is associated with the loss of international reserves, while a balance of payment _________________ is associated with gain
a. Deficit ; Surplus
b. Deficit ; Deficit
c. Surplus ; Deficit
d. Surplus ; Surplus

29. Shoe leather costs are
a. The cost to individuals as they hold less cash and have to visit bank more frequently
b. Cost of changing price lists
c. Arrival of fiscal drag
d. The less well-off will lose part of their purchasing power.

30. What is economic growth?
a. The increase in the amount of spending by consumers
b. The percentage increase in real GDP
c. The increase in annual government spending

d. The amount of capital consumed in a year.

Answer Key – 1(d), 2(d), 3(a), 4(a),5(a), 6(d), 7(b), 8(a), 9(c), 10(d), 11(a), 12(d), 13(c), 14(b), 15(c), 16(a), 17(b), 18(a), 19(a), 20(a), 21(a), 22(b), 23(c), 24(c), 25 (a), 26(b), 27(c), 28(a), 29(a), 30(b)