CMJ UNIVERSITY, SHILLONG

TERM END EXAMINATION - 2012

Question Booklet Code: B **Duration:** 2 Hours

Course: B.Tech. **Year:** First Year

Paper Code: 701103 **Paper Name:** ECONOMICS

ATTEMPT ALL THE BELOW MENTIONED QUESTIONS:

1. The interest-rate and real balances effects are important because they help explain:
A) rightward and leftward shifts of the aggregate demand curve.
B) why demand-management policy cannot be used effectively to curb stagflation.
C) the shape of the aggregate demand curve.
D) the shape of the aggregate supply curve.

2. The determinants of aggregate demand:
A) explain why the aggregate demand curve is downsloping.
B) explain shifts in the aggregate demand curve.
C) demonstrate why real output and the price level are inversely related.
D) include input prices and resource productivity.

3. Which one of the following would not shift the aggregate demand curve?
A) a change in the price level
B) depreciation of the international value of the dollar
C) a decline in the interest rate at each possible price level
D) an increase in personal income tax rates

4. All else equal, an increase in imports will shift the aggregate expenditures curve:
A) upward and the aggregate demand curve rightward.
B) upward and the aggregate demand curve leftward.
C) downward and the aggregate demand curve rightward.
D) downward and the aggregate demand curve leftward.

5. The aggregate supply curve:
A) shows the various amounts of real output which businesses will produce at each price level.
B) is downsloping because real purchasing power increases as the price level falls.
C) contains a vertical range where real output is variable and the price level is constant.
D) is explained by the interest rate, wealth, and foreign purchases effects.

6. Other things equal, an improvement in productivity will:
A) shift the aggregate demand curve to the left.
B) shift the aggregate supply curve to the left.
C) shift the aggregate supply curve to the right.
D) increase the price level.

7. Productivity measures:
A) real output per unit of input.
B) per unit production costs.
C) the changes in real wealth caused by price level changes.
D) the amount of capital goods used per worker.

8. The equilibrium price level and level of real output occur where:
A) real output is at its highest possible level.
B) exports equal imports.
C) the price level is at its lowest level.
D) the aggregate demand and supply curves intersect.

9. Discretionary fiscal policy refers to:
A) any change in government spending or taxes which destabilizes the economy.
B) the authority which the President has to change personal income tax rates.
C) changes in taxes and government expenditures made by Congress to stabilize the economy.
D) the changes in taxes and transfers which occur as GDP changes.

10. "Discretionary" fiscal policy is so named because it:
A) is undertaken at the option of the nation's central bank.
B) occurs automatically as the nation's level of GDP changes.
C) involves specific changes in T and G undertaken expressly for stabilization purposes at the option of Congress.
D) is invoked secretly by the Council of Economic Advisors.

11. If the MPS in an economy is .1, government could shift the aggregate demand curve rightward by $40 billion by:
A) increasing government spending by $4 billion.
B) increasing government spending by $40 billion.
C) decreasing taxes by $4 billion.
D) increasing taxes by $4 billion.

12. Assume that aggregate demand in the economy is excessive, causing demand-pull inflation. Which of the following would be most in accord with appropriate government fiscal policy?
A) an increase in Federal income tax rates
B) an increase in the size of income tax exemptions for each dependent
C) passage of legislation providing for the construction of 8,000 new post office buildings
D) an increase in soil conservation subsidies to farmers

13. An appropriate fiscal policy for a severe recession is:
A) a decrease in government spending.
B) a decrease in tax rates.
C) appreciation of the dollar.
D) an increase in interest rates.

14. Which of the following represents the most expansionary fiscal policy?
A) a $10 billion tax cut
B) a $10 billion increase in government spending
C) a $10 billion tax increase
D) a $10 billion decrease in government spending

15. Which of the following fiscal actions would be the most effective in curbing inflation?
A) incurring a budget deficit by borrowing from the public
B) incurring a budget surplus which is used to retire debt held by commercial banks
C) incurring a budget surplus and impounding that surplus
D) incurring a budget surplus which is used to retire debt held by the public

16. If the economy has a full-employment budget surplus, this means that:
A) the public sector is exerting an expansionary impact upon the economy.
B) tax revenues would exceed government expenditures if full employment were achieved.
C) the actual budget is necessarily also in surplus.
D) the economy is actually operating at full employment.

17. If you are estimating your total expenses for school next semester, you are using money primarily as:
A) a medium of exchange.
B) a store of value.
C) a unit of account.
D) an economic investment.

18. A $200 price tag on a cashmere sweater in a department store window is an example of money functioning as a:
A) unit of account.
B) standard of deferred payments.
C) store of value.
D) medium of exchange.

19. When we say that money serves as a unit of account, we mean that it is:
A) away to keep some of our wealth in a readily spendable form for future use.
B) a means of payment.
C) a monetary unit for measuring and comparing the relative values of goods.
D) declared as legal tender by the government.

20. Fiat money is:
A) composed only of demand deposits.
B) money because the government asserts that it is.
C) money which is "resting" in a commercial bank vault.
D) money which can be redeemed for an intrinsically valuable commodity such as gold.

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

22. In defining money as M1 economists exclude time deposits because:
A) the intrinsic value of time deposits is nil.
B) the purchasing power of time deposits is much less stable than that of demand deposits and currency.
C) they are not directly or immediately a medium of exchange.
D) they are not recognized by the Federal government as legal tender.

23. Which of the following is not part of the M2 money supply?
A) money market mutual fund balances
B) money market deposit accounts
C) currency
D) large ($100,000 or more) time deposits

24. Checkable deposits are:
A) included in M1.
B) not included in either Ml or M2.
C) considered to be a near money.
D) also called time deposits.

25. The asset demand for money:
A) is unrelated to both the interest rate and the level of GDP.
B) varies inversely with the rate of interest.
C) varies inversely with the level of real GDP.
D) varies directly with the level of nominal GDP.
E) varies directly with the rate of interest.

26. The opportunity cost of holding money:
A) is zero because money is not an economic resource.
B) varies inversely with the interest rate.
C) varies directly with the interest rate.
D) varies inversely with the level of economic activity.

27. (Advanced analysis) Assume the equation for the total demand for money is L = 0.4Y + 80 - 4 i, where L is the amount of money demanded, Y is gross domestic product, and i is the interest rate. If gross domestic product is $200 and the interest rate is 10 (percent), what amount of money will society want to hold?
A) $200
B) $120
C) $320
D) $160

28. Which of the following statements is correct?

A) Interest rates and bond prices vary directly.
B) Interest rates and bond prices vary inversely.
C) Interest rates and bond prices are unrelated.
D) Interest rates and bond prices vary directly during inflations and inversely during recessions.

29. When the money market is in equilibrium:

A) the quantity of money demanded equals the quantity of money supplied.
B) the interest rate is neither increasing nor decreasing.
C) bond prices are stable.
D) all of the above hold true.

30. The twelve Federal Reserve Banks:

A) act as fiscal agents for the Federal government.
B) provide for the collection of checks.
C) hold the deposits of commercial banks.
D) do all of the above.

31. Which of the following statements is not correct?

A) The actual reserves of a commercial bank equal its excess plus its required reserves.
B) A bank's assets plus its net worth equal its liabilities.
C) When borrowers repay bank loans, the supply of money is reduced.
D) A single commercial bank can safely lend an amount equal to its excess reserves.

32. A bank which has assets of $85 billion and a net worth of $10 billion must have:

A) liabilities of $75 billion.
B) excess reserves of $10 billion.
C) liabilities of $10 billion.
D) excess reserves of $75 billion.

33. The reserves of a commercial bank consist of:

A) the amount of money market funds it holds.
B) deposits at the Federal Reserve Bank and vault cash.
C) government bonds which the bank holds.
D) the bank's net worth.

34. The ABC Commercial Bank has $5,000 in excess reserves and the reserve ratio is 30 percent. The bank must have:

A) $90,000 in outstanding loans and $35,000 in reserves.
B) $90,000 in demand deposit liabilities and $32,000 in reserves.
C) $20,000 in demand deposit liabilities and $10,000 in reserves.
D) $90,000 in demand deposit liabilities and $35,000 in reserves.

35. Suppose a commercial bank has demand deposits of $100,000 and the legal reserve ratio is 10 percent. If the bank's required and excess reserves are equal, then its actual reserves:

A) are $30,000.
B) are $10,000.
C) are $20,000.
D) cannot be determined from the given information.

36. A reserve requirement of 20 percent means a bank must have $1000 of reserves if its demand deposits are:

A) $100.
B) $1,000.
C) $5,000.
D) $12,000.

37. Suppose that a bank's actual reserves are $5 million, its demand deposits are $5 million, and its excess reserves are $3 million. The reserve requirement must be:

A) 40 percent.
B) 20 percent.
C) 10 percent.
D) 5 percent.

38. When a bank loan is repaid the supply of money:

A) is constant, but its composition will have changed.
B) is decreased.
C) is increased.
D) may either increase or decrease.

39. The amount of reserves which a commercial bank is required to hold is equal to:

A) the amount of its demand deposits.
B) the sum of its demand deposits and time deposits.
C) its demand deposits multiplied by the required reserve ratio.
D) none of the above.

40. Which of the following would reduce the money supply?

A) Commercial banks use excess reserves to buy government bonds from the public.
B) Commercial banks loan out excess reserves.
C) Commercial banks sell government bonds to the public.
D) A check clears from Bank A to Bank B.

41. The Federal funds market is the market in which:

A) banks borrow from the Federal Reserve Banks.
B) U.S. securities are bought and sold.
C) banks borrow reserves from one another on an overnight basis.
D) Federal Reserve Banks borrow from one another.

42. If we let m equal the maximum number of new dollars which can be created for a single dollar of excess reserves and R equal the required reserve ratio, then we can say that for the banking system:

A) m = R - 1.
B) R = m/1.
C) R = m - 1.
D) m = 1/R.

43. If the reserve ratio is 15 percent and commercial bankers decide to hold additional excess reserves equal to 5 percent of any newly acquired demand deposits, then the relevant monetary multiplier for the banking system will be:

A) 31/2.
B) 4.
C) 5.
D) 10.

44. If the reserve ratio were 100 percent, the value of the monetary multiplier would be:

A) 0.
B) 1.
C) 10.
D) 100.

45. Which of the following is an asset on the consolidated balance sheet of the Federal Reserve Banks?

A) loans to commercial banks
B) Federal Reserve Notes in circulation
C) Treasury deposits
D) reserves of commercial banks

46. Reserves must be deposited in the Federal Reserve Banks by:

A) only commercial banks which are members of the Federal Reserve System.
B) all depository institutions, that is, all commercial banks and thrift institutions.
C) state chartered commercial banks only.
D) federally chartered commercial banks

47. The Federal Reserve Banks buy government securities from commercial banks. As a result, the demand deposits:

A) of commercial banks are unchanged, but their reserves increase.
B) and reserves of commercial banks both decrease.
C) of commercial banks are unchanged, but their reserves decrease.
D) and reserves of commercial banks are both unchanged.

48. The monetary authorities can change the money supply by:

A) changing bank reserves through the sale or purchase of government securities.
B) changing the quantities of required and excess reserves by altering the legal reserve ratio.
C) changing the discount rate so as to encourage or discourage commercial banks in borrowing from the central banks.
D) doing all of the above.

49. "Open-market operations" refers to:

A) purchases of stocks in the New York Stock Exchange.
B) the purchase or sale of government securities by the Fed.
C) central bank lending to commercial banks.
D) the specifying of margin requirements on stock purchases.

50. The Federal Reserve System regulates the money supply primarily by:

A) controlling the production of coins at the United States mint.
B) altering the reserve requirements of commercial banks and thereby the ability of banks to make loans.
C) altering the reserves of commercial banks, largely through sales and purchases of government bonds.
D) all of the above

51. An increase in the reserve ratio:

A) increases the size of the spending income multiplier.
B) decreases the size of the spending income multiplier.
C) increases the size of the monetary multiplier.
D) decreases the size of the monetary multiplier.

52. Assume the economy is operating at less than full employment. An easy money policy will cause interest rates to _____. which will _____ investment spending.

A) decrease; decrease
B) decrease; increase
C) increase; increase
D) increase; decrease

53. An increase in the money supply will:

A) lower interest rates and lower the equilibrium GDP.
B) lower interest rates and increase the equilibrium GDP.
C) increase interest rates and increase the equilibrium GDP.
D) increase interest rates and lower the equilibrium GDP.

54. The sale of government bonds by the Federal Reserve Banks to commercial banks will:

A) increase aggregate supply.
B) decrease aggregate supply.
C) increase aggregate demand.
D) decrease aggregate demand.

55. To reduce the Federal funds rate, the Fed can:

A) buy government bonds from the public.
B) increase the discount rate.
C) increase the prime interest rate.
D) sell government bonds to commercial banks.

56. The income and substitution effects explain why:
A) the elasticity of demand can be unity.
B) product demand curves are downsloping.
C) product supply curves are upsloping.
D) equilibrium is always achieved in a competitive market.

57. The price elasticity of demand coefficient indicates:
A) buyer responsiveness to price changes.
B) the extent to which a demand curve shifts as incomes change.
C) the slope of the demand curve.
D) how far business executives can stretch their fixed costs.

58. The demand for a product is inelastic with respect to price if:
A) consumers are largely unresponsive to a per unit price change.
B) the elasticity coefficient is greater than 1.
C) a drop in price is accompanied by a decrease in the quantity demanded.
D) a drop in price is accompanied by an increase in the quantity demanded.

59. Suppose that as the price of Y falls from $2.00 to $1.90 the quantity of Y demanded increases from 110 to 118. Then the price elasticity of demand is:
A) 4.00.
B) 2.09.
C) 1.37.
D) 3.94.

60. If the demand for product X is inelastic, a 4 percent increase in the price of X will:
A) decrease the quantity of X demanded by more than 4 percent.
B) decrease the quantity of X demanded by less than 4 percent.
C) increase the quantity of X demanded by more than 4 percent.
D) all of the above

61. A perfectly inelastic demand schedule:
A) rises upward and to the right, but has a constant slope.
B) can be represented by a line parallel to the vertical axis.
C) cannot be shown on a two-dimensional graph.
D) can be represented by a line parallel to the horizontal axis.

62. Suppose Aiyanna's pizzeria currently faces a linear demand curve and is charging a very high price per pizza and doing very little business. Aiyanna now decides to lower pizza prices by 5 percent per week for an indefinite period of time. We can expect that each successive week:
A) demand will become more price elastic.
B) price elasticity of demand will not change as price is lowered.
C) demand will become less price elastic.
D) the elasticity of supply will increase.

63. For a linear demand curve:
A) elasticity is constant along the curve.
B) elasticity is unity at every point on the curve.
C) demand is elastic at low prices.
D) demand is elastic at high prices.

64. If a demand for a product is elastic, the value of the price elasticity coefficient is:
A) zero.
B) greater than one.
C) equal to one.
D) less than one.

65. Suppose the price of local cable TV service increased from $16.20 to $19.80 and as a result the number of cable subscribers decreased from 224,000 to 176,000. Along this portion of the demand curve, price elasticity of demand is:

A) 0.8.
B) 1.2.
C) 1.6.
D) 8.0

66. Moving upward on a downward-sloping straight-line demand curve, we find that price elasticity:

A) is constant.
B) increases continuously.
C) decreases continuously.
D) may either increase or decrease.

67. Which of the following statements is not correct?

A) If the relative change in price is greater than the relative change in the quantity demanded associated with it, demand is inelastic.
B) In the range of prices in which demand is elastic, total revenue will diminish as price decreases.
C) Total revenue will not change if price varies within a range where the elasticity coefficient is unity.
D) Demand tends to be elastic at high prices and inelastic at low prices.

68. Suppose the price elasticity of demand for bread is 0.20. If the price of bread falls by 10 percent, the quantity demanded will increase by:

A) 2 percent and total expenditures on bread will rise.
B) 2 percent and total expenditures on bread will fall.
C) 20 percent and total expenditures on bread will fall.
D) 20 percent and total expenditures on bread will rise.

69. If the demand for farm products is price inelastic, a good harvest will cause farm revenues to:

A) increase.
B) decrease.
C) be unchanged.
D) either increase or decrease, depending on what happens to supply.

70. If a price reduction reduces a firm's total revenue:

A) the demand for the product is inelastic in this price range.
B) the product is an inferior good.
C) in this price range the elasticity coefficient of demand is greater than 1.
D) this price decline will increase the firm's profits.