

Examrace

Competitive Exams: Economics MCQs (Practice_Test 32 of 122)

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1. Consider the following items:

- a. currency with the public
- b. cash with banks
- c. Post-office savings bank deposits
- d. 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

2. Consider the following determinants:

- a. The quantity of high powered money
- b. the ratio of bank deposits to bank reserves
- c. the ratio of reserve money to total bank deposits
- d. the ratio of public's bank deposits to currency

According to Milton Friedman and Anna

Schwartz, proximate determinants of money stock would include

- a. 1 and 3
- b. 1, 2 and 4
- c. 1, 2 and 3
- d. 2, 3 and 4

3. According to Keynes, transaction demand for money, L can be stated as (symbols have the usual meaning).

- a. $l = k (Y)$
 - b. $L = (r)$
 - c. $L = k (Y) + I (r)$
 - d. $L = Y - 1$
4. Supply of money remaining the same, when there is an increase in demand for money, there will be
- a. a fall in the level of prices
 - b. and increase in the rate of interest
 - c. a decrease in the rate of interest
 - d. and increase in the level of income and employment
5. 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:
6. Match List (Theory of interest) with List II (authors) and select the correct answer using the codes given below the list:

List-I	List-II
A. Abstinence theory of interest	1. Knut Wicksell
B. time preference theory of interest	2. Irvin Fisher
C. Loanable funds theory of interest	3. NW Senior
D. Liquidity preference theory of interest	4. JM Keynes

A B C D

- a. 2 3 1 4
- b. 3 2 1 4
- c. 3 2 4 1
- d. 2 3 4 1

7. Which of the following account for the limited nature of scope of monetary policy in underdeveloped countries?

- a. The money market is unorganized and hence the monetary management of the central bank is not wide
- b. The governments always resort to deficit financing as their budgetary policy for development
- c. Money supply consists mainly of currency in circulation but the bank deposits form only a small portion of total money supply
- d. Change in the bank rate and other monetary initiatives remain ineffective because of a large non-monetized sector.

Select the correct answer using the codes given below:

Codes:

- a. 1, 3 and 4
- b. 1, 2 and 3
- c. 1, 2 and 4
- d. 2, 3 and 4

8. Match 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. Hyperinflation
B. Raising prices deliberately to relieve depression	2. Disinflation
C. Fall in prices without a decline in the existing level of employment, out and income	3. Stagflation
D. Recession accompanied by inflation	4. Reflation

5. Inflation

A B C D

a. 5 1 2 4

b. 1 3 2 5

c. 1 4 5 3

d. 5 4 2 3

9. Consider the following statements: A rise in the general level of prices may be caused by

- a. an increase in the money supply
- b. a decrease in the aggregate level of output.
- c. an 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

o. Consider the following types of assets held by a commercial bank:

- a. Money at call and short notice
- b. Government securities
- c. Advances
- d. 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, 2, 3
- d. 4, 1, 2, 3

11. Consider the following factors:

- a. Cash withdrawal from the banking system by the public.
- b. Cash reserve ratio to be maintained by commercial banks.
- c. supply of currency notes by the central bank.
- d. supply of currency notes by the central bank.
- e. Willingness of the borrowers to take loans from commercial banks

Credit creation capacity of commercial banks is determined by

- a. 1, 3 and 4
- b. 2, 3 and 4
- c. 1, 2 and 3
- d. 1, 2 and 3

12. Assume that a bank does NOT have enough reserves and the central bank is NOT willing to lend reserves to the bank under the circumstance which of the following procedures can the bank adopt?

- a. It can borrow cash from another bank with excess reserves and this cash can be added to its reserves.
- b. It can reduce its loans; this will bring in cash and increase its reserves.
- c. It can sell government bonds in its possession in the open market and obtain cash to add to its reserves.

Select the correct answer using the codes given below:

Codes:

- a. 1 and 2
- b. 2 and 3
- c. 1 and 3
- d. 1, 2 and 3

13. since 1962, the Reserve Bank of India has been authorized to vary the Cash Reserve Ratio of commercial banks aggregate deposits, between

- a. 2% and 8%
- b. 5% and 20%
- c. 3% and 10%

d. 3% and 15%

14. In order to control inflation, the central bank should

a. sell government securities and lower the bank rate

b. Sell government securities and raise the bank rate

c. purchase government securities and raise the bank rate

d. purchase government securities and lower the bank rate

15. Where the foreign offer curves has an elasticity of one, the optimum tariff will be

a. infinity

b. unity

c. less than unity

d. zero

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