

## PPSC Economics Topic 4 Monetary & Fiscal Policy

| Sr | Questions  | Answers Choice   |
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| 1  | A decline in the money _____ shifts the LM curve to the ____ causing the interest rate to rise and output to fall.   | A. Demand ; right<br>B. demand ; left<br>C. supply ; right<br>D. supply ; left   |
| 2  | Per Capita income is obtained by dividing National income by   | A. Total labor Force in the country<br>B. Unemployed Youth in the country<br>C. Total population of that country<br>D. None  |
| 3  | The negative effect on the economy that occurs when average tax rates increases because taxpayers have moved into higher income brackets during an expansion is.   | A. Fiscal drag<br>B. The Laffer curve<br>C. Bracket creep<br>D. Debt burden  |
| 4  | In the Keynesian cross diagram, a decline in autonomous consumer expenditure causes the aggregate demand function to shift down the equilibrium level of aggregate output to _____ and the IS curve to shift to the. | A. up ; left<br>B. up ; right<br>C. down ; left<br>D. down ; right   |
| 5  | A good that is used as a medium of exchange as well as being a consumption good is called.   | A. A barter money<br>B. A commodity money<br>C. A legal tender<br>D. A debased money   |
| 6  | The central bank and the government are working against each other if as the government cuts taxes the central bank  | A. Sells government bonds<br>B. Lowers the discount rate<br>C. Increase the money supply<br>D. Decrease the legal reserve requirements   |
| 7  | in The Liquidity trap region   | A. Fiscal policy is not effective<br>B. Monetary policy is completely ineffective<br>C. Monetary policy is completely effective<br>D. Fiscal policy and monetary policy are equally effective  |
| 8  | In the case of an expansionary ____ policy the interest rate rise while in the case of an expansionary _____ policy the interest rate falls.   | A. monetary ; monetary<br>B. monetary ; fiscal<br>C. fiscal ; monetary<br>D. fiscal ; fiscal   |
| 9  | A decline in the money supply shifts the LM curve to the left causing the interest rate to _____ and output to ____  | A. rise ; rise<br>B. rise ; fall<br>C. fall ; rise<br>D. fall ; fall   |
| 10 | A shift in tastes toward foreign goods _____ net exports and causes the IS curve to shift to the   | A. decreases ; right<br>B. decrease ; left<br>C. increase ; right<br>D. increases ; left   |
| 11 | The IMF is an agency charged with providing.   | A. Technical assistance to stock market and financial market problems.<br>B. Loans for post World War II reconstruction<br>C. Short term credit for international balance of payments deficits<br>D. Bonds denominated in U.S. dollars as a loan to LDCs |
| 12 | There are _____ major instrument of monetary policy.   | A. Three<br>B. Four<br>C. Five<br>D. None  |
| 13 | Knowledge of the money supply can lead to good predications of nominal GDP only  | A. If the price level is stable<br>B. If the money supply is stable<br>C. Over very short periods of time<br>D. If the determinants of velocity are known  |

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| 14 | Suppose you are a monetarist and believe in the the monetarist rule which the monetary authorities appear to be following if the economy beings to experience a slight increase in the inflation rte you would recommend that the monetary autorities. | <p>A. Increase the money growth rate slightly</p> <p>B. Decrease the money growth rate slightly</p> <p>C. Leave the money supply growth unchanged</p> <p>D. Enact a one time slight decrease in the money supply</p>                |
| 15 | As a result of the increase in government expenditures disposable income increases by.   | <p>A. Rs.10 billion</p> <p>B. Rs.9 billion</p> <p>C. Rs.20 billion</p> <p>D. Rs.5 billion</p>   |
| 16 | A checking deposit held at a commercial bank is considered _____ of that bank.   | <p>A. An asset</p> <p>B. Net worth</p> <p>C. a liability</p> <p>D. Capital</p>  |
| 17 | The ratio of debt to GDP will be larger  | <p>A. The lower the real interest rate</p> <p>B. The lower the growth rate of output</p> <p>C. The lower the in initial debt ratio</p> <p>D. The lower the ratio of the primary deficit to GDP</p>                                  |
| 18 | A decrease in autonomous consumer expenditure causes the equilibrium level of aggregate output to _____ at any given interest rate and shifts the _____ curve to the _____   | <p>A. rise ; LM ;right</p> <p>B. rise ; IS ; right</p> <p>C. Fall ; LM ; left</p> <p>D. rise ;IS; Left</p>  |
| 19 | The opportunity cost of holding currency decreases when.   | <p>A. Income decreases</p> <p>B. The interest rate on bonds decrease</p> <p>C. Buying newly issued government bonds directly from the central bank</p> <p>D. Buying newly issued government bonds directly to the central bank.</p> |
| 20 | According to the supply side model a reduction in the tax rate.  | <p>A. Could reduce the size of any budget deficit</p> <p>B. Would have no effect on output</p> <p>C. Would have no effect on consumption</p> <p>D. None of the above</p>  |