

PRACTICE QUESTIONS

Macroeconomics for Financial Markets Module

1. The overriding reason as to why households and societies face many decisions is that _____. (1 Marks)

- a) people, by nature, tend to disagree
- b) incomes fluctuate with business cycles
- c) goods and services are not scarce
- d) resources are scarce

Correct Answer: resources are scarce

2. Macroeconomists study _____. (1 Marks)

- a) decisions of households and firms
- b) regulations on firms and unions
- c) economy-wide phenomena.
- d) the interaction of households and firms

Correct Answer: economy-wide phenomena.

3. Which of the following typically rises during a recession? (2 Marks)

- a) corporate profits
- b) garbage collection
- c) unemployment
- d) automobile sales

Correct Answer: unemployment

4. Demand pull inflation may be caused by _____. (1 Marks)

- a) an increase in costs
- b) an outward shift in aggregate supply
- c) a reduction in government spending
- d) aggregate demand exceeding feasible or potential output

Correct Answer: aggregate demand exceeding feasible or potential output

5. Suppose during a year, an individual's income goes up by 7 percent, but the inflation during the year is 12 percent. Then the purchasing power of the individual has gone _____. (1 marks)

- a) down
- b) up

Correct Answer: Down

6. If price index in year 2018 is 150 and it becomes 180 in 2019 and 210 in 2020, then the inflation rate is _____. (1 Marks)

- a) same in 2019 and 2020
- b) lower in 2019
- c) higher in 2019
- d) there is no inflation

Correct Answer: higher in 2019

7. Gross Domestic Product is an economic aggregate that represents the _____. (1 Marks)

- a) total product of a nation's economy
- b) total income earned from all sales
- c) potential output of a country
- d) total product that a country exports

Correct Answer: total product of a nation's economy

8. Crowding out _____. (1 Marks)

- a) may lead to reduction in inflation
- b) may lead to a decrease in private investment
- c) may lead to reduction of government expenditure
- d) may lead to an increase in private investment

Correct Answer: may lead to a decrease in private investment

9. Which one is not part of capital receipts of the government? (1 Marks)

- a) External assistance
- b) Short term borrowings
- c) Market Loans
- d) Tax receipts

Correct Answer: Tax receipts

10. According to the crowding-out effect, a decrease in government spending _____. (2 Marks)

- a) increases the interest rate and so increases investment spending
- b) decreases the interest rate and so decreases investment spending
- c) decreases the interest rate and so increases investment spending
- d) increases the interest rate and so decreases investment spending

Correct Answer: decreases the interest rate and so increases investment spending

11. If the government uses domestic debt to finance the fiscal deficit, the _____ of the government increases. (2 Marks)

- a) debt obligation
- b) credit

- c) income
- d) taxes

Correct Answer: debt obligation

12. Sometimes during wars government expenditures are larger than normal. To reduce the effects this spending creates on interest rates, _____. (2 Marks)

- a) RBI could increase the money supply by buying bonds
- b) RBI could decrease the money supply by selling bonds
- c) RBI could increase the money supply by selling bonds
- d) RBI could decrease the money supply by buying bonds

Correct Answer: RBI could increase the money supply by buying bonds

13. An appreciation in the value of the U.S. dollar against the British pound would tend to _____. (2 Marks)

- a) discourage the British from buying American goods
- b) increase the number of dollars that could be bought with a pound
- c) discourage U.S. tourists from traveling to Britain
- d) discourage Americans from buying British goods

Correct Answer: discourage the British from buying American goods

14. _____ captures the effect of trade link between the economy and rest of the world. (2 Marks)

- a) Trade Account
- b) Deficit Account
- c) Current Account
- d) Surplus Account

Correct Answer: Current Account

15. In USA, the main input into the production of Starbuck's coffee is imported coffee beans. If the dollar depreciates, how will this affect the U.S. retail coffee market? (2 Marks)

- a) Input prices will fall and supply will decrease.
- b) Input prices will fall and supply will increase.
- c) Input prices will rise and supply will increase.
- d) Input prices will rise and supply will decrease.

Correct Answer: Input prices will rise and supply will decrease.

16. Suppose that the exchange rate between the U.S. dollar and the Euro is 1.5 \$/Euro. Suppose protein drinks cost 4.5 Euro/drink. What is the dollar price of the protein drink? (2 Marks)

- a) 6.75
- b) 1

- c) 3
- d) 1.5

Correct Answer :6.75

17. Money received under Overseas Development Assistance is a part of _____. (2 marks)

- a) Foreign direct investment
- b) Capital Account
- c) Invisibles
- d) Foreign portfolio investment

Correct Answer: Capital Account

18. _____ are free from default risk. (2 Marks)

- a) Government securities
- b) Bank deposits
- c) Corporate bonds
- d) Mutual Funds

Correct Answer: Government securities

19. _____ and _____ are traded at the NSE.(2 Marks)

- a) Options, futures
- b) Climate contracts, Binary contracts
- c) Wheat, rice
- d) Electricity, power

Correct Answer: Options, futures

20.Which of the following is a short-term financial instrument? (2 Marks)

- a) U.S. Treasury bill.
- b) Residential mortgage.
- c) New York City bond with a maturity of 2 years.
- d) Share of IBM stock.

Correct Answer: U.S. Treasury bill.

21. The government launched a New Pension System (NPS) in _____.(1 Marks)

- a) 2004
- b) 1984
- c) 1964
- d) 1954

Correct Answer:2004

22. By taxing the income of the rich at a much higher rate than the income of the poor, the government attempts to reduce _____.(1 Marks)

- a) GDP
- b) production
- c) income inequality
- d) savings

Correct Answer: income inequality

23. Fiscal policy consists of _____. (1 Marks)

- a) taxes and interest rates
- b) the money supply and taxes
- c) taxes and government spending
- d) government purchases and defense spending

Correct Answer: taxes and interest rates

24. An expansionary monetary policy by the Central Bank is most likely to _____. (2 Marks)

- a) increase the foreign demand for dollars and appreciate the dollar's exchange value
- b) increase the foreign demand for dollars and depreciate the dollar's exchange value
- c) decrease the foreign demand for dollars and depreciate the dollar's exchange value
- d) decrease the foreign demand for dollars and appreciate the dollar's exchange value

Correct Answer: decrease the foreign demand for dollars and depreciate the dollar's exchange value

25. An increase in material costs will: (1 Marks)

- a) lead to cost push inflation
- b) shift aggregate demand
- c) increase the productivity of employees
- d) None of the above.

Correct Answer : lead to cost push inflation