A. Choose the correct answer:

1. The value of money in Fisher’s equation is determined by
   (a) Demand for money (   )
   (b) Supply of money (   )
   (c) Demand and supply of money (   )
   (d) None of the above (   )

2. According to the Quantity Theory of Money, the value of money depends upon
   (a) Quantity theory of money in circulation (   )
   (b) Purchasing power of money (   )
   (c) Demand for money (   )
   (d) Price level (   )

3. According to Cambridge equation, the value of money depends upon
   (a) Demand for money (   )
   (b) Supply of money (   )
   (c) Demand for goods and services (   )
   (d) All of the above (   )

4. The degree of relationship between the demand for and the supply of money in Fisher’s equation will be
   (a) supply > demand (   )
   (b) supply = demand (   )
   (c) supply < demand (   )
   (d) None of the above (   )
5. Which is not the function of money
   (a) **Make demand and supply equal** ( )
   (b) Store of value ( )
   (c) Medium of exchange ( )
   (d) Measure of value ( )

6. High-powered money is also known as
   (a) Base money ( )
   (b) Reserve money ( )
   (c) Narrow money ( )
   (d) **All of the above** ( )

7. Who stated, “Bad money drives good money out of circulation, when both of them are full legal tender”?
   (a) Irving Fisher ( )
   (b) Milton Friedman ( )
   (c) J.M. Keynes ( )
   (d) **Thomas Gresham** ( )

8. Value of money is
   (a) Directly related to the price level ( )
   (b) **Inversely related to the price level** ( )
   (c) Proportionately related to the price level ( )
   (d) All the above ( )

9. Who stated, “Money is what money does”?
   (a) Milton Friedman ( )
   (b) **Walker** ( )
   (c) Irving Fisher ( )
   (d) Thomas Gresham ( )

10. Fisher’s cash transaction equation is expressed as
    (a) \( P = \frac{MV}{T} \) ( )
    (b) \( K = \frac{M}{PT} \) ( )
    (c) \( V = \frac{T}{K} \) ( )
    (d) \( P = \frac{M}{KT} \) ( )

11. Barter system means
    (a) Purchase of commodity with money ( )
    (b) Sale of commodity with money ( )
    (c) **Purchase and sale of commodity with commodity** ( )
12. Which among the following is considered to be the most liquid asset?
   (a) Gold ( )
   (b) Money ( )
   (c) Land ( )
   (d) Treasury bonds ( )

13. Currency notes and coins are called as:
   (a) flat money ( )
   (b) legal tenders ( )
   (c) Fiat money ( )
   (d) Both (b) and (c) ( )

14. Convertible money means
   (a) It can buy goods ( )
   (b) Government can give gold against it ( )
   (c) Illegal money ( )
   (d) Low value of money ( )

15. Barter system has the defect of
   (a) Goods exchanged are of inferior quality ( )
   (b) Goods cannot be exchanged for services ( )
   (c) Lack of common measure of value ( )
   (d) None of the above ( )

16. Legal money is called so because
   (a) The buyer must pay in that money ( )
   (b) Can be converted into gold ( )
   (c) Sellers do not accept any other money ( )
   (d) It is official medium of exchange ( )

17. The most important feature of money is
   (a) General acceptability ( )
   (b) Convertibility into gold ( )
   (c) Store of value ( )
   (d) Medium of exchange ( )

18. Which property the paper money does not possess:
   (a) acceptability ( )
   (b) Divisibility ( )
   (c) Durability ( )
   (d) Portability ( )
19. In the equation $MV = PY$, $V$ represents
   (a) Value of money ( )
   (b) **Velocity of circulation of money** ( )
   (c) Variation of national income ( )
   (d) All of the above ( )

20. In the equation $MV = PY$, $M$ represents
   (a) **Money supply** ( )
   (b) Money demand ( )
   (c) Maximum output ( )
   (d) Minimum output ( )

21. According to Keynes, motives for holding money are
   (a) Two ( )
   (b) **Three** ( )
   (c) Four ( )
   (d) Five ( )

22. Under normal circumstances, the velocity of circulation of money in a country is
   (a) 100 % ( )
   (b) Negative ( )
   (c) **Less than 10** ( )
   (d) Zero ( )

23. Paper money is called fiat money because
   (a) It is issued with authority of government ( )
   (b) It is convertible into gold ( )
   (c) It can be easily printed ( )
   (d) It is light weight ( )

24. Value of money means
   (a) Gold purchased by money ( )
   (b) **General Purchasing power of money** ( )
   (c) Importance of money ( )
   (d) Demand for money ( )

25. If the quantity of money increases 100%, other things remaining constant, value of money changes by
   (a) Increases by 100 % ( )
   (b) **Decreases by 100 %** ( )
   (c) Decreases by 200% ( )
   (d) Does not change ( )
26. Value of money and supply of money are related
   (a) Inversely ( )
   (b) Directly ( )
   (c) Are not related ( )
   (d) None of the above ( )

27. The quantity demanded of money rises
   (a) As the interest rises ( )
   (b) As the interest falls ( )
   (c) As the supply of money falls ( )
   (d) As the number of banks rises ( )

28. Equation of exchange is associated with
   (a) Pigou ( )
   (b) J.B. Say ( )
   (c) Marshall ( )
   (d) Irving Fisher ( )

29. Equation of exchange is converted into the quantity theory of money by assuming the following variables as constants
   (a) V and T ( )
   (b) M and V ( )
   (c) M and P ( )
   (d) V and P ( )

30. Fisher equation of exchange states that
   (a) P varies directly with income ( )
   (b) P varies directly with M ( )
   (c) P and M are constants ( )
   (d) None of the above ( )

31. In the Fisher’s extended equation of exchange \( M^L V \) represents
   (a) Credit money ( )
   (b) Primary money ( )
   (c) Both primary and credit money ( )
   (d) General Price level ( )

32. In Fisher’s transaction velocity model, which one of the following is not an assumption
   (a) Velocity of circulation of money is constant ( )
   (b) The volume of transaction is constant ( )
   (c) Full employment ( )
   (d) P is considered as an active factor ( )
33. The cash balance equation $M = KPY$ was given by
   (a) Keynes ( )
   (b) Pigou ( )
   (c) Robertson ( )
   (d) Marshall ( )

34. Robertson’s version of the Cambridge equation is
   (a) $P = \frac{M}{KT}$ ( )
   (b) $P = \frac{KR}{M}$ ( )
   (c) $MV = PT$ ( )
   (d) $M = \frac{KP}{Y}$ ( )

35. Pigou’s version of Cambridge equation is
   (a) $P = \frac{M}{KT}$ ( )
   (b) $P = \frac{KR}{M}$ ( )
   (c) $MV = PT$ ( )
   (d) $M = \frac{KP}{Y}$ ( )

36. The quantity theory of money was restated by
   (a) Alfred Marshall ( )
   (b) Milton Friedman ( )
   (c) Irving Fisher ( )
   (d) JM. Keynes ( )

37. Fisher’s equation of exchange considers money as
   (a) A medium of exchange ( )
   (b) A store of value ( )
   (c) Measures of value ( )
   (d) All of the above ( )

38. Robertson’s equation of exchange considers money as
   (a) A medium of exchange ( )
   (b) A store of value ( )
   (c) Measures of value ( )
   (d) All of the above ( )
39. The number of times a unit of money exchanges hands during a unit period of time is known as
   (a) **Velocity of the circulation of money** ( )
   (b) Speed of circulation of money ( )
   (c) Momentum of circulation of money ( )
   (d) Count of circulation of money ( )

40. In India, coins are minted at four places, which among the following is one of them
   (a) New Delhi ( )
   (b) Chennai ( )
   (c) **Hyderabad** ( )
   (d) All of them ( )

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**ANSWER KEY**
**(UNIT-I)**

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MODULE-II: BANKING

A. Choose the correct answer:

1. Which of the following is a qualitative or selective method of credit control by the central bank?
   (a) Bank rate or Discount Rate Policy ( )
   (b) Open market operations ( )
   (c) Cash Reserve Ratio ( )
   (d) None of the above ( )

2. In what way the Central Bank serves as a Banker’s Bank?
   (a) By maintaining gold reserve ( )
   (b) By controlling currency ( )
   (c) By acting as a lender of the last resort ( )
   (d) By reducing the interest rates ( )

3. Which of the following is not a function of commercial bank?
   (a) Accepting deposits ( )
   (b) Creating credits ( )
   (c) Printing bank notes ( )
   (d) None of the above ( )
4. Reserve Bank of India (RBI) was established on
   (a) 1st April, 1925 ( )
   (b) 1st April 1935 ( )
   (c) 1st April 1945 ( )
   (d) 1st April 1955 ( )

5. Primary deposit in a commercial bank is called
   (a) Active deposit ( )
   (b) **Passive deposit** ( )
   (c) Derivative deposit ( )
   (d) All of the above ( )

6. Derivative deposit in a commercial bank is also called
   (a) **Active deposit** ( )
   (b) Passive deposit ( )
   (c) Primary deposit ( )
   (d) None of the above ( )

7. Bank rate is
   (a) The rate of interest charged by banks on their loans ( )
   (b) The rate of interest paid by banks on deposits ( )
   (c) **Official discount rate at which the Central Bank rediscount approved bills of the commercial banks** ( )
   (d) The interest paid by commercial banks to their beneficiaries ( )

8. Which of the following is not a function of Central Bank?
   (a) Enjoys monopoly of note issue ( )
   (b) Acts as the banker’s bank ( )
   (c) **Creation of credit** ( )
   (d) Lender of the last resort ( )

9. Which of the following is a qualitative method of credit control of a central bank?
   (a) Bank rate ( )
   (b) Open market operation ( )
   (c) **Rationing of Credit** ( )
   (d) All of the above ( )

10. If the central bank wants to control credit, it should
    (a) Lower the rediscount rate ( )
    (b) **Raise the bank rate** ( )
    (c) Buy securities in the open market ( )
    (d) Raise cash reserve ratio ( )
11. Which of the following is a selective credit instrument?
   (a) variable reserve ratio ( )
   (b) credit rationing ( )
   (c) Bank rate ( )
   (d) All of the above ( )

12. When the Central Bank intends to expand the credit, it should
   (a) Raise the margin requirements ( )
   (b) Raise the variable reserve ratio ( )
   (c) Lower the bank rate ( )
   (d) Purchase government securities in the open market ( )

13. Open Market Operation is
   (a) Buying and selling of government securities ( )
   (b) Sale of government securities ( )
   (c) Buying and selling of government cheques ( )
   (d) All of the above ( )

14. Open market operation will become successful if there is a
   (a) free-market economy ( )
   (b) developing economy ( )
   (c) well-developed bill and security market ( )
   (d) All of the above ( )

15. Which of the following is not an instrument of selective credit control?
   (a) Margin requirements ( )
   (b) Open market operation ( )
   (c) Credit rationing ( )
   (d) None of the above ( )

16. Bank rate policy is not very effective because-
   (a) It requires a well-developed money market ( )
   (b) It cannot operate effectively ( )
   (c) All banks are not under the control of central bank ( )
   (d) All the above ( )

17. Which of the following is not a quantitative method of credit control
   (a) Bank arte ( )
   (b) Open market operation ( )
   (c) Variable reserve ratio ( )
   (d) Regulation of consumer credit ( )
18. To what extent the central bank is the lender of the last resort?
   (a) As it lends to the government
   (b) As it provides finance to agriculture
   (c) **As it is the ultimate source of credit in times of crisis**
   (d) As it controls the money supply in the economy

19. Variable reserve ratio refers to-
   (a) **The ratio which the commercial banks are required to maintain with the central bank**
   (b) The ratio at which the central bank rediscounts first class bills
   (c) The purchase and sale by the central bank to government securities in the money market
   (d) All of the above

20. The term bank liquidity implies
   (a) Management of cash
   (b) Creation of credit
   (c) **The capacity of the bank to give cash on demand in exchange**
   (d) All of the above

21. What is known as the most profitable asset of a commercial bank?
   (a) Investment at call and short-notice
   (b) **Loans and advances to its customers**
   (c) Accepting deposits
   (d) None of the above

22. The fundamental function of a commercial bank is
   (a) Acceptance of deposits
   (b) **Advancing loans**
   (c) Issuing bank draft
   (d) Creating credit

23. Which of the following is not a function of commercial bank?
   (a) Accepting deposits
   (b) Advancing loans
   (c) Creating credit
   (d) **Printing bank notes**

24. Loans and investment of a commercial bank constitute its
   (a) **Derivative deposits**
   (b) Primary deposits
   (c) Secondary deposits
   (d) All of the above
25. Bank’s liquidity means
(a) Its capacity to create credit ( )
(b) Its capacity to provide a high rate of interest ( )
(c) Its capacity to supply finance ( )
(d) **Its capacity to convert its assets into cash** ( )

26. A bank’s capacity to create credit is limited by the
(a) **Size of cash** ( )
(b) Size of its area ( )
(c) Size of the central bank ( )
(d) All of the above ( )

27. A bank can increase the supply of money by
a) **printing notes** ( )
(b) **Creating credit** ( )
(c) Issuing cheques ( )
(d) None of the above ( )

28. Which of the following public sector banks has the highest number of branches in India?
(a) **State Bank of India** ( )
(b) Allahabad Bank ( )
(c) Bank of India ( )
(d) Punjab National Bank ( )

29. Derivative deposits are created during the time of –
(a) **Accepting demand deposits** ( )
(b) Accepting drafts ( )
(c) **Making loans to the customers** ( )
(d) All of the above ( )

30. The securities and bonds which a commercial banks holds is also known as
(a) **Cash reserve ratio** ( )
(b) **Derivative deposits of the banks** ( )
(c) **Secondary deposits of the bank** ( )
(d) All of the above ( )

31. Which is known as the most profitable asset of the bank?
(a) **loans and advance to its customers** ( )
(b) the investment in government securities ( )
(c) life insurance policies of the staff ( )
(d) None of the above ( )

32. The derivative deposit created by a bank results in-
33. What is Currency Deposit Ratio (CDR)?

(a) Ratio of money held by the public in currency to that of money held in bank deposits

(b) Ratio of money held by the public in bank deposits to that of money held by public in currency

(c) Ratio of money held in demand drafts to that of money held in treasury bonds

(d) None of the above

34. What is the Reserve Deposit Ratio?

(a) The proportion of money RBI lends to commercial banks

(b) The proportion of total deposits commercial banks keep as reserves

(c) The total proportion of money that commercial banks lend to the customers

(d) None of the above

35. Which among the following is called the rate of interest charged by RBI for lending money to various commercial banks by rediscounting of the bills in India?

(a) Bank rate

(b) Discount window

(c) Monetary Policy

(d) Overnight rate

36. What method is used by the Bank to read code on cheque?

(a) MICR

(b) OCR

(c) OMR

(d) None of the above

37. Which is the largest private sector bank in India?

(a) ICICI

(b) Axis Bank

(c) HDFC

(d) ICICI

38. Who was the first Indian to become Governor of Reserve Bank of India (RBI)?

(a) Liaquaut Ali Khan

(b) T.T. Krishnamachari

(c) John Mathai
In July 1969, 14 major Indian Scheduled Banks were nationalized and 6 more banks were nationalized in
(a) April 1980  
(b) May 1980  
(c) April 1981  
(d) May 1981

Which is the largest private sector bank in India on the basis of consolidated assets?
(a) Axis Bank  
(b) ICICI Bank  
(c) HDFC Bank  
(d) South Indian Bank

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**ANSWER KEY (UNIT-II)**

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MODULE-4: INFLATION

A. Choose the correct answer
1. Inflation is a situation when
   (a) Prices of some goods rise  (   )
   (b) **General price level rises continuously**  (   )
   (c) Prices double every year  (   )
   (d) Prices rise and fall  (   )

2. An inflation caused by an enhanced wages of labour is
   (a) Demand-pull inflation  (   )
   (b) **Cost-push inflation**  (   )
   (c) Hyperinflation  (   )
   (d) Stagflation  (   )

3. Inflation in under-developed country is basically caused by
   (a) Mass poverty  (   )
   (b) Less production  (   )
   (c) Lack of technical know-how  (   )
   (d) **Market imperfection**  (   )
4. According to Keynes, inflationary gap is caused by
   (a) excess supply ( )
   (b) **excess demand** ( )
   (c) deficiency of demand ( )
   (d) deficiency of supply ( )

5. Stagflation implies a situation of
   (a) **High inflation and high unemployment** ( )
   (b) Low unemployment and low inflation ( )
   (c) High inflation and low unemployment ( )
   (d) Low inflation and high unemployment ( )

6. Demand-Pull inflation is caused by an
   (a) **Increase in the aggregate effective demand for goods and services** ( )
   (b) Increase in the money incomes of the factors of production ( )
   (c) Increased investment in the economy ( )
   (d) All of the above ( )

7. Which of the following is a monetary measure to control inflation in an economy?
   (a) Increase in money supply ( )
   (b) **Demonetization of currency** ( )
   (c) Increase in government expenditure ( )
   (d) All of the above ( )

8. In Keynesian view, inflation is
   (a) **The rise in the price level after the point of full employment** ( )
   (b) A rise in the price level before the point of full employment ( )
   (c) Too much money chasing too few goods ( )
   (d) All of the above ( )

9. “Inflation is a state in which the value of money is falling i.e., prices are rising”. Who said this?
   (a) Hansen ( )
   (b) Keynes ( )
   (c) **Crowther** ( )
   (d) Fisher ( )

10. If inflation is allowed to continue without any check, it is known as
    (a) Supressed inflation ( )
    (b) Normal inflation ( )
    (c) **Open inflation** ( )
    (d) Deflation ( )
11. When both prices and money income fall, the situation is called
   (a) Disinflation ( )
   (b) Recession ( )
   (c) Deflation ( )
   (d) Anti-inflation ( )

12. Inflation in a developed country usually sets in
   (a) Before the point of full employment ( )
   (b) After the point of full employment ( )
   (c) at the point full employment ( )
   (d) None of the above ( )

13. During inflation, who suffers the most?
   (a) Wage and salary earners ( )
   (b) Creditors ( )
   (c) Debtors ( )
   (d) Businessman ( )

14. When government interrupts price rise, there is
   (a) Suppressed inflation ( )
   (b) Reflation ( )
   (c) Open inflation ( )
   (d) Deflation ( )

15. The phenomenal rise in prices accompanied by increased real income is known as
   (a) inflation ( )
   (b) deflation ( )
   (c) reflation ( )
   (d) None of the above ( )

16. Which of the following measure proves effective in reducing the rate of inflation?
   (a) Decreased personal consumption ( )
   (b) Evaluation of currency ( )
   (c) Increased taxation ( )
   (d) All of the above ( )

17. Inflation can be controlled by applying:
   (a) Monetary and fiscal policies ( )
   (b) Monetary and labour policy ( )
   (c) Fiscal and Commercial Policies ( )
   (d) All of the above ( )
18. During inflation
(a) Lenders lose, borrowers gain ( )
(b) Borrowers lose, lenders gain ( )
(c) Borrowers and lenders both lose ( )
(d) All sections of the society gain ( )

19. Which people are most likely to gain during inflation?
(a) Those living on pension ( )
(b) Those living on their savings ( )
(c) *Those who are repaying borrowed money* ( )
(d) Those who have lent money ( )

20. Inflation leads to
(a) Distribution of income equal ( )
(b) Distribution of income unequal ( )
(c) No effect on distribution of income ( )
(d) Affects only industrial sector ( )

21. Inflation in an under-developed economy generally sets in
(a) *Before the point of full employment* ( )
(b) After the point of full employment ( )
(c) At the point of full employment level ( )
(d) All of the above ( )

22. Which of the following measure is adopted to reduce inflation?
(a) Reduction in bank rate ( )
(b) Reduction in Repo rate ( )
(c) Increase in government expenditure ( )
(d) *Cuts in government spending* ( )

23. According to the monetarists, inflation is caused by
(a) Supply shocks ( )
(b) Expansionary fiscal policies ( )
(c) *Expansionary monetary policies* ( )
(d) Government regulations ( )

24. Theoretically, one can distinguish a demand- pull inflation from a cost-push inflation by comparing
(a) How fast prices rise relative to wages ( )
(b) *The unemployment rate with its natural rate level* ( )
(c) When prices rise relative to wages ( )
(d) None of the above ( )
25. Demand-pull inflation arises when
   (a) Policymakers set a very high unemployment target
   (b) A persistent budget deficit is financed by money creation
   (c) The deficit is financed by selling bonds to the public
   (d) All of the above

26. Government may pursue inflationary monetary policies
   (a) To promote high employment
   (b) To accommodate demands of workers for higher wages
   (c) To finance a persistent budget deficit
   (d) All of the above

27. Governments may end up with a high money growth rate and high inflation as a result of policies designed to
   (a) Lower unemployment
   (b) Finance persistent government budget deficits through money creation rather than by issuing bonds
   (c) Redistribute wealth from debtors to creditors
   (d) Both (a) and (b)

28. Which of the following is an effect of inflation?
   (a) Erosion in purchasing power
   (b) Affects relative price of goods
   (c) Increase in inequalities of income
   (d) All of the above

29. Which of the following can be undertaken to control inflation?
   (a) Control on public expenditure
   (b) Control on hoarding and black-marketing
   (c) Effective control on credit
   (d) All of the above

30. Which of the following is phenomenon that leads to Hyperinflation?
   (a) It is a situation when aggregate demand in an economy outpaces aggregate supply
   (b) It is a situation of persistent rise in inflation along with dip in growth and increase in unemployment
   (c) It is a situation caused by an increase in prices of inputs like labour, raw material etc
   (d) It is a situation when a nation experiences very high and accelerating inflation

31. Inflationary gap said to exist when
   (a) Real GDP > Potential GDP
(b) Real GDP < Potential GDP  ( )
(c) Real GDP = Potential GDP  ( )
(d) Unemployment rate > natural rate of unemployment  ( )

32. Phillip’s curve shows the relationship between the rate of
   (a) Unemployment and output growth  ( )
   (b) **Unemployment and increase in money wages**  ( )
   (c) Employment and inflation  ( )
   (d) All of the above  ( )

33. According to Phillips curve unemployment will return to the natural rate when:
   (a) Nominal wages are equal to expected wages  ( )
   (b) **Real wages are back at equilibrium level**  ( )
   (c) Nominal wages are growing faster than inflation  ( )
   (d) Inflation is higher than the growth of nominal wages  ( )

34. An increase in aggregate is more likely to lead to demand pull inflation if:
   (a) Aggregate supply is perfectly elastic  ( )
   (b) **Aggregate supply is perfectly inelastic**  ( )
   (c) Aggregate supply is unit inelastic  ( )
   (d) Aggregate supply is relatively inelastic  ( )

35. In short-run, unemployment may fall below the natural rate of unemployment if:
   (a) Nominal wages have risen less than inflation  ( )
   (b) Nominal wages have risen at the same rate as inflation  ( )
   (c) Nominal wages have risen more than inflation  ( )
   (d) Nominal wages have risen less than unemployment  ( )

36. The effects of inflation on the price competitiveness of a country’s products may be
   offset by
   (a) An appreciation of the currency  ( )
   (b) A revaluation of the currency  ( )
   (c) **A depreciation of the currency**  ( )
   (d) None of the above  ( )

37. Countries with the highest inflation rates are likely to have
   (a) The highest rate of money growth  ( )
   (b) Large budget deficits  ( )
   (c) The lowest interest rates  ( )
   (d) Both (a) and (b)  ( )

38. A one-time increase in the price level is
(a) rarely reported by the news media as inflation, but is nevertheless considered to be inflation by economists
(b) regularly reported by the news media as inflation, but is not considered to be inflation by economist.
(c) regularly reported by the news media as inflation because it is considered to be inflation by economists
(d) None of the above

39. Which economist proposed that “Inflation is always and everywhere a monetary phenomenon”
   (a) JM Keynes
   (b) J.R. Hicks
   (c) Milton Friedman
   (d) Franco Modigliani

40. According to monetarists, inflation is caused by
   (a) Supply shocks
   (b) Expansionary fiscal policies
   (c) Expansionary monetary policies
   (d) Rising prices

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