ECO 223 – Winter 2024 Quiz 4

Date: 15th April, 2024 Total Marks – 15

Weightage Towards Final Grade – 15% Time: 20 Minutes

Name: ____ Roll Number: ________________

a. Each Question is worth 1.5 points. Wrong answers are -0.3 (negative marking), no answers are 0 points.
b. Please circle the right answer. Each question has **ONLY ONE** right answer.

Answer the following questions:

1. When a currency appreciates, who amongst the following is likely to suffer the most?
   a. Businesses that primarily deal with importing goods
   b. Consumers
   c. Individuals providing services locally (barbers, mechanics etc.)
   d. Local businessmen producing basic plastic goods and selling them only domestically (not exporting)
   e. None of these are likely to suffer

   It makes imported rival goods cheaper.

2. Productivity of a country affects its exchange rate. Is this a
   a. Long run factor.
   b. Short run factor.
   c. It is one of the items listed in both long and short run factors.
   d. It isn't listed in either (at least not in the book).
3. As per the theory of asset demand (relevant in this context for exchange rates), the most important determinant of the quantity of domestic (rupee) assets demanded is the relative ____________________ of domestic assets.
   a. Value
   b. Expected value.
   c. Return
   d. Expected return
4. The basic idea behind burgernomics/Big Mac index is
   a. To understand the demand and supply of the an identical good in developed vs developing countries.
   b. To understand the price of an identical good in domestic currency terms of an identical good across countries.
   c. To show that prices of certain identical good across countries can be a good proxy for the real exchange rate.
   d. None of the above
5. List any one factor that affects the expected future exchange rate (only ones taught in class/slides) ___________________
   Any one of Expectations of a fall in the domestic price level relative to the foreign price level, Expectations of higher domestic trade barriers relative to foreign trade barriers,

Expectations of lower domestic import demand, Expectations of higher foreign demand for domestic exports, expectations of higher domestic productivity relative to foreign productivity.

The word Expectations/Expected is compulsory

6. Which of these affects supply for dollar assets in the short run directly (within our short run model)
   a. Domestic interest rate
   b. Foreign interest rate
   c. Expected future exchange rate
   d. All of the above.
   e. None of the above
   These affect demand, not supply
7. A nominal anchor is basically a
   a. Random rule.
   b. Time inconsistency problem.
   c. Discretionary policy
   d. Behavioural rule.
8. They key difference between quantity theory of money (QTM) and Keynesian theory is that
   a. Prices don't change in Keynesian theory.
   b. Quantities don't change with increased money supply in Keynesian theory.
   c. The demand for money in Keynesian theory is affected by interest, unlike QTM
   d. None of these.
9. One of the main factors determining a change in velocity of money V is
   a. Short term monetary policy.
   b. Demand for foreign goods.
   c. Institutions in the economy
   d. None of the above.

   Answer is c. but also accepting d. as the sentence in c. is not very precise. The precise sentence is "institutions in an economy that affect the way individuals conduct transactions."
10. In the equation $\frac{M^d}{P} = f(i, Y)$, the demand for real money balances is _______________ related to the interest rate i

    Negatively/Inversely.