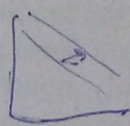
6. The inflation-expectations-augmented Phillips curve implies that
a. Unemployment is at its natural rate when expected inflation is equal to actual inflation
b. Stagflation occurs when expected inflation is below actual inflation
c. Stagflation occurs when the short-run Phillips curve shifts left
d. The inflation rate is equal to the real output growth rate plus the monetary growth rate

b

7. In the short run the aggregate supply curve is upward sloping since
a. Workers immediately realize that nominal wage increases are really the result of price increases
b. Firms encounter costs in resetting prices and are willing to pay workers above market-clearing prices
c. Wages and prices always immediately change in proportion to the money stock
d. There is always natural friction in the labor market that prevents unemployment from reaching zero

8. In an AD-AS model with an upward-sloping AS-curve, the most likely effects of fiscal expansion would be
a. An increase in prices and interest rates, but a decrease in real money balances
b. An increase in output, prices, and real money balances
c. An increase in consumption and a decrease in investment with no change in output
d. A decrease in unemployment but an increase in interest rates and real money balances



a

9. Assume the economy is at full employment and the Central Bank restricts money supply. What will be the effects on output and prices?
a. In the short run output and prices will both decrease, but in the long run output will remain the same, while prices will decrease
b. Output will not be affected in the short or long run, but prices will decrease in the long run
c. Output will decrease but only in the long run, while prices will decrease in the short run and the long run
d. In the short run output will remain the same, but in the long run both output and prices will decline

10. The most likely long-run result of a tax cut would be
a. Lower unemployment but higher prices and interest rates
b. Lower interest rates but no change in unemployment
c. Higher levels of consumption, investment, and employment
d. More consumption and less investment, with output remaining unchanged

11. In the AD-AS model, what is the most likely long-run outcome of an oil price increase, if no policy change is implemented?
c
a. Real wages will decline while the levels of output and prices will remain unchanged
b. The level of prices will increase while the level of output will remain unchanged
c. The natural unemployment rate and the price level will both increase
d. Nominal wages and prices will increase, but real wages will remain unchanged

$C = \bar{C} + cY$ $S = Y - I - 1$

$Y - I - C$

12. In a model with no government or foreign sector, if saving is defined as $S = -200 + (0.1)Y$ and investment is $I_o = 200$, what is the equilibrium level of consumption?
a. 3,800
b. 3,600
c. 1,800
d. 2,000

$(C+I)$ $0.9Y = I - 200$

$I \quad Y - C = -200 + 0.1(C+I)$

$0.9I + 200 = 0.1C \quad = 200 + 180$

$Y - C$

13. Assume a model of the expenditure sector with no government or foreign sector. If the savings function is defined as $S = -300 + (0.1)Y$ and autonomous investment increases by 200, by how much will consumption increase?
a. 180
b. 200
c. 1,800
d. 2,000

$0.9Y = C - 300$

$0.9(C + I) = C - 300$

$0.9\Delta I = 0.1C$

14. If the level of government transfer payments increases while everything else stays the same, then
a. The IS-curve will shift to the left
b. The IS-curve will shift to the right
c. The IS-curve will become flatter and shift to the right
d. The LM-curve will shift to the right

TR

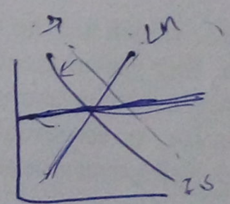
$i = \frac{\bar{A}}{b} - \frac{Y}{\alpha b}$ $\Delta A \uparrow$ $C\Delta A$

15. We can expect the IS-curve to get steeper, as
a. Money demand becomes less sensitive to changes in the interest rate
b. The marginal propensity to save increases
c. Investment becomes more sensitive to changes in the interest rate
d. The income tax rate decreases

$b \downarrow$ $\alpha = \frac{1}{1 - c(1-t)}$

Fixed
Floating
Fixed

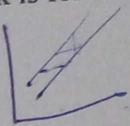
16. Under a flexible exchange rate system, expansionary fiscal policy
a. Cannot change the level of consumption
b. Is very effective because crowding out cannot occur
c. Has no effect on the trade balance
d. Will cause a deterioration of the trade balance



17. When exchange rates are fixed and capital is perfectly mobile, monetary policy
a. Is very effective in changing the level of output
b. Is completely ineffective in changing the level of output
c. Is effective in changing the level of output but not domestic interest rates
d. Can be conducted independently of exchange rate considerations

18. In a model with perfect capital mobility and flexible exchange rates, an increase in government purchases will
a. Increase net exports but decrease private domestic investment
b. Be totally crowded by a decrease in private domestic investment of the same magnitude
c. Crowd out net exports due to an exchange rate appreciation
d. Increase net exports due to a depreciation of the exchange rate

19. In an IS-LM model with flexible exchange rates and perfect capital mobility, a restriction in money supply will
a. Decrease the level of output permanently but increase the interest rate only temporarily
b. Decrease both the level of output and the interest rate but only temporarily
c. Temporarily decrease the level of output and temporarily increase the interest rate
d. Shift the LM-curve first to the left and then back to the right as the central bank is forced to buy foreign currency reserves



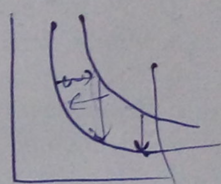
20. What is the definition of M2 in the Indian monetary system?
a. M1 + saving deposits of post office saving banks.
b. Mo + Demand deposits with the banking system + "other" deposits with RBI.
c. Mo + Time deposits with the banking system + "other" deposits with RBI.
d. All of the above denote M2.

M_1
M_3
M3

21. The debt to GDP ratio will be larger if?
a. higher is the real interest rate
b. higher is the growth rate of output
c. lower is the ratio of the primary deficit to GDP
d. None of the above.

22. Assume many more stores agree to accept credit cards. Which of the following will be a likely outcome?
a. The money multiplier will decrease
b. The money multiplier will increase
c. Money supply will decrease, given a fixed monetary base
d. The currency-deposit ratio will increase

$\frac{P \times Y}{MS}$



23. Which are the three channels by which Central Bank can reduce money supply?
a. Buy government securities, lower reserve requirements, and lower the discount rate
b. Buy government securities, raise reserve requirements, and raise the discount rate
c. Buy government securities, lower reserve requirements, and raise the discount rate
d. Sell government securities, raise reserve requirements, and raise the discount rate

24. If the currency-deposit ratio is 23% and the reserve ratio is 7%, the size of the money multiplier is
a. 0.3
b. 2.0
c. 3.0
d. 4.1

$mm = \frac{P \times Y}{M} = \frac{1+cu}{cu+Re}$

$\frac{1+0.23}{0.3}$ $\frac{1.23}{0.3}$

25. The call money rate
a. Is not affected by open market operations
b. Is also known as the primary credit rate
c. Is the rate that banks have to pay if they borrow from the Fed
d. Is the rate a bank has to pay if it borrows from another bank

PART II

Question 1

Assume the economy is in a recession. Describe an adjustment process that will ensure that the economy will return to full employment. How can the government speed up this process?

5

Question 2

Recently oil prices have declined considerably. What kind of monetary policy should the Reserve Bank of India undertake if its goal is to stabilize the level of output while keeping inflation low? Show with the help of an AD-AS diagram and briefly explain the adjustment process.

5

Question 3

"Expansionary fiscal policy cannot change real output under fixed exchange rates and perfect capital mobility." Comment on this statement.

5

Fixed → Mone

float → Fiscal

Major Exam

Course: SML 780 “Managerial Economics”
Time: 120 Minutes
Maximum Marks: 35

Instructions:

Question paper consists of two parts. Part I consists of multiple choice questions where each question carries 1 mark. All the questions are compulsory in part I. In Part II you have to answer any **TWO** of the subjective questions. Each question carries 5 marks. **Draw neatly labeled graphs where necessary** otherwise your marks will be lower.

PART I

1. In the long-run AD-AS model,
a. Only fiscal policy can affect both output and prices
b. Only monetary policy can affect both output and prices
c. Monetary policy can affect output but not prices
d. Active stabilization policy is ineffective in changing output ✓

2. Which of the following transactions has a direct and immediate effect on GDP?
a. An unemployed worker gets unemployment compensation
b. You sell your used car to a friend
c. You buy some TCS stocks
d. A German tourist drinks Canadian beverage in a New Delhi restaurant ✓

3. Which of the following statements is **FALSE**?
a. Real GDP is greater than nominal GDP if prices are falling
b. Real GDP is greater than nominal GDP if prices are rising
c. Real GDP cannot increase if prices are falling
d. Real GDP cannot decrease if prices are rising

4. The CPI is defined as
a. The cost-price index, measuring cost increases to producers
b. A price index that measures the average price increase of all final goods and services produced
c. A price index that measures the cost of a given market basket of intermediate goods and raw materials
d. A price index that measures the cost of a market basket of goods representing the purchases of a typical consumer

5. Friedman and Phelps argued that the Phillips curve is not stable over time because
a. Any kind of stabilization policy immediately affects nominal wages
b. Any shift in aggregate demand will immediately also shift the Phillips curve
c. Workers' expectations about price changes are only wrong temporarily
d. Firms change wage rates for workers as soon as product prices change, so profits will not suffer