Indian Institute of Technology Delhi
Humanities and Social Sciences Department

Introduction to Economics (HUL 211a), Major Exam, 24 November 2014
<u>Question Type B:</u> Total Marks: 35; Duration: 2 hours

PART A: Answer all Questions

1. Which of the following is a component of reserve money but not a component of broad money (Options: currency with the public, cash in banks, time deposits, none of the above) (1 mark only)

2. The 'trilemma' in international economics refer to the inability of a country to achieve three macroeconomic objectives simultaneously. Which are these three objectives? (2 marks only)

3. What are the main items on the asset side of the Reserve Bank of India's balance sheet? Which of these has been rising in importance (with respect to their share in RBI's total assets) during the 2000s (2 marks only)

4. In India, SLR was reduced to 25% by the late 1990s. However, investments by commercial banks in government securities (as a proportion of their total deposits) were more than 30% during that period. Write any one reason why this could have happened? (1 mark only)

5. Which of the following items of government expenditures has been steadily declining in India since the 1990s (Options: Revenue expenditures, capital expenditures, subsidies) (1 mark only)

6. Fill in the blanks: An increase in government spending without any change in money supply could result in ---------- in transactions demand for money and ------ in interest rat (1 mark only)

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7. The IS-LM curve drawn for a closed economy showed the LM curve to be flat. Which of the following would be true about this economy: (Options: monetary policy would be effective; fiscal policy would be effective; neither would be effective; both would be effective) (1 mark only)

8. Per capita income of country B was only $1/10^{th}$ of the per capita income of country A when incomes of both the countries were measured in dollars at current exchange rates. However when the incomes of countries A and B were estimated again (in dollars) at purchasing power parity, it was found that the per capita income of country B was $1/5^{th}$ of the per capita income of country A. What does this tell us about the general level of prices in countries A and B? (Options: Prices are lower in country B than in A; Prices are lower in country A than in B; the above information does not tell anything about prices) (1 mark only)

9. Which of the following is true about the current account (measured in domestic output) of an economy that experienced real currency depreciation?
Options: (A) Current account improves (B) Current account worsens (C) Current account worsens immediately after depreciation but improves in the long run (D)

Current account improves immediately after depreciation but worsens in the long run (1 mark only)

PART B: Answer any two questions: 6 Marks each

10. Discuss how the expectation of future currency devaluation can lead to a balance of payments crisis in an economy (as it happened in the case of Thailand's economy during the East Asian crisis of 1996-97)?

11. Show the main items on the asset and liability side of the Central Bank (of a country P) (assets and liabilities in US dollars). Assume that Central Bank intervention amounting to $100 is necessary to prevent appreciation of the domestic currency. How will such an intervention affect the assets and liabilities of the Central Bank? What are the problems if any associated with such an intervention. What happens to the assets and liabilities if the Central Bank carries out sterilization subsequent to its intervention in the foreign exchange market?

12. Is fiscal policy effective in a flexible exchange rate regime with perfect capital mobility? Explain your answer (with graphs if necessary).

PART C: Answer any one question; 12 Marks only

13. What are the major developmental challenges faced by India as discussed in the book, *An Uncertain Glory: India and Its Contradictions* written by Jean Dreze and Amartya Sen?

14. Comment on the major macroeconomic challenges that India faces today (two issues that you may like to address in your answer: what role do global capital flows play in India's economic growth; do you agree with the argument that the reduction of fiscal deficit is necessary for India's economic growth).