

MINOR-II EXAMINATION HUL 213
9th Oct. 2015; Time: 11.00 AM – 12.00 noon
Maximum Marks- 20 Marks;

SECTION-A

Multiple Choice Questions. Only one option is correct.

[4 marks]

1. If tax rate (t) is increased,
 - a) the saving (S) line shifts upwards and saving plus tax (S+T) line shifts downwards
 - b) the saving (S) line shifts upwards and saving plus tax (S+T) line shifts upwards
 - c) the saving (S) line shifts downwards and saving plus tax (S+T) line shifts downwards
 - d) the saving (S) line shifts downwards and saving plus tax (S+T) line shifts upwards
2. According to liquidity trap argument
 - a) expansive monetary policy loses its power once interest rates fall to low levels
 - b) expansive monetary policy loses its power when interest rates are high
 - c) restrictive monetary policy loses its power once interest rates fall to low levels
 - d) restrictive monetary policy loses its power when interest rates are high
3. The investment demand function is $I^* = \bar{I} - \pi i$. The impact of a change in interest rate on investment demand will be larger if
 - a) π is high
 - b) π is low
 - c) \bar{I} is high
 - d) \bar{I} is low
4. Consider the following statements:
 - 1) Lower the currency-deposit ratio (c), higher the money multiplier
 - 2) Higher the currency-deposit ratio (c), higher the money multiplier
 - 3) Lower the reserve-deposit ratio (c), higher the money multiplier
 - 4) Higher the reserve-deposit ratio (c), higher the money multiplier
 - a) 1 and 3
 - b) 2 and 4
 - c) 1 and 4
 - d) 2 and 3

SECTION-B

State whether the statement is TRUE or FALSE.

[4 Marks]

1. An equal increase in lump-sum taxes and transfer payments has no effect on equilibrium output.
2. When the RBI purchases Rs. 10,000 bonds from an investment dealer and the dealer deposits the proceeds in a demand deposit in its bank (Bank A), the Bank A's excess reserves rise by Rs. 10,000.
3. Assume a cash reserve ratio of 5% for the commercial banks. Suppose the RBI sells Rs. 2 million in securities directly to the commercial banks. As a result of this transaction, the supply of money will directly decrease by Rs. 2 million and the money creating potential of the commercial banking system will decrease by Rs. 40 million.
4. The rate of return for a proposed investment will increase if future flows are distributed in earlier rather than later periods.

SECTION-C

1. Consider the following economy:

$$C = 150 + 0.8 Y_d$$

$$I^* = 50 + 0.1 Y$$

$$G = 100$$

$$T = 80$$

- a) Find the equilibrium values of income, consumption and savings and show that leakages are equal to injections.
 - b) Now, suppose MPC falls from 0.8 to 0.7. Find the new equilibrium of savings.
 - c) Are the results in accordance with the Paradox of Thrift? Explain. [5 marks]
2. If the government attempts to eliminate a budget deficit during a recession, these efforts will intensify the recession. Do you agree? Explain. [2.5 marks]
3. How does a decrease in repo rate affect the economy? Explain. [1.5 marks]
4. Write short notes on any THREE of the following:
- a) Purchasing Power Parity
 - b) Automatic Stabilizer
 - c) Selective Credit Controls
 - d) Moral Suasion [3 marks]