

A/L 2003

1. Which one of the following is not considered part of M_4 ?
 - I. Currency held by the Central Bank
 - II. Demand deposits held by public at commercial banks
 - III. Fixed deposits held by public at finance companies
 - IV. Savings deposits held by public at the national Savings Bank.
 - V. Savings deposits held by public in Non-Resident Foreign Currency accounts.
2. Which of the following is not a function of money?
 - I. Medium of exchange
 - II. Unit of account
 - III. Shelter against inflation
 - IV. Store of value
 - V. Standard of deferred payments.
3. Which one of the following is most liquid?
 - I. Demand deposits
 - II. Real estate
 - III. Savings deposits
 - IV. Treasury bills
 - V. Bills of exchange
4. Which one of the following would lead to a contraction in money supply?
 - I. A depreciation in the exchange rate
 - II. An increase in personal income tax
 - III. Central Bank encouraging commercial banks to increase loans.
 - IV. Central Bank selling government securities.
 - V. Central Bank buying government securities.
5. Interest rates will be an effective instrument of monetary policy, if
 - I. An increase in interest rates raises the cost of government borrowing
 - II. The demand for bank loans is interest elastic
 - III. The demand for bank loans is interest inelastic.
 - IV. The supply of money is interest elastic
 - V. The supply of money is interest inelastic.
6. "The broad money supply (M_4) in Sri Lanka increased by nearly Rs. 84 billion in 2001." The major factor that contributed to this increase was
 - I. The increase in net foreign assets
 - II. The increase in net credit to the governments
 - III. The increase in net credit to the private sector
 - IV. The increase in credit to the public corporations
 - V. The increase in demand deposits held by the public.
7. Suppose that a commercial banking system has Rs. 50 million deposits and cash reserves of Rs. 6 million. Given a statutory reserve ratio of 10 percent, what is the maximum possible additional expansion of the money supply?

- I. Rs. 0.5 million
 - II. Rs. 1 million
 - III. Rs. 10 million
 - IV. Rs. 11 million
 - V. Rs. 60 million
8. Which one of the following must essentially occur during inflation?
- I. An increase in budget deficit.
 - II. An increase in the price of imported raw materials
 - III. A redistribution of income from debtors to creditors.
 - IV. A reduction in nominal interest rate
 - V. A fall in the value of country's money.
9. Which one of the following would be suggested by a fall in the GNP deflator?
- I. The standard of living has necessarily risen.
 - II. The external value of rupee has fallen against other currencies.
 - III. All prices must have fallen
 - IV. The purchasing power of money must have risen
 - V. The real income must have decreased.

A/L 2004

10. An Asset (Other Than Money) Is Considered To be most liquid if
- I. It has a long maturity
 - II. It is issued by a major company rather than the government
 - III. It earns a high rate of interest
 - IV. It has more than one use
 - V. It can be, quickly and with least cost, transferred into money.
11. Assume that a commercial bank has total deposits of Rs. 250 million and Rs. 170 million of total reserves. The remainder of bank assets are loans. If the required reserve ratio is 105, then what is the amount of excess reserves currently held by this bank?
- I. Rs. 800 million
 - II. Rs. 145 million
 - III. Rs. 128 million
 - IV. Rs. 25 million
 - V. Rs. 17 million
12. Which of the following policy actions taken by the Central Bank is likely to increase the money supply?
- I. Selling government bonds
 - II. Reducing reserve requirements
 - III. Increasing the discount rate
 - IV. All of the above
 - V. None of the above.
13. According to Quantity Theory of Money, an increase in the money supply causes
- I. A proportional increase in prices
 - II. A proportional increase in the velocity of money
 - III. A proportional increase in real output

- IV. A proportional increase in both prices and real output
 - V. A proportional increase in both velocity and prices.
14. If the real rate of interest is positive then,
- I. The nominal rate of interest must be greater than the rate of inflation.
 - II. The real burden of government debt will fall
 - III. The nominal rate of interest must be less than the rate of inflation.
 - IV. The real value of personal savings will fall
 - V. The rate of inflation is likely to rise
15. Sustained high inflation affects economic growth because,
- I. The resulting high prices induce more investment across the economy, leading to an increase in the rate of growth.
 - II. It encourages more borrowing, which improves economic growth
 - III. It improves investors' confidence which improves economic growth
 - IV. It increases uncertainty about future returns which reduces economic growth.
 - V. It encourages more investment in assets like real estate and gold which appreciate equally or at a higher rate than the rate of inflation.
16. Which of the following is a possible cause of cost-push inflation?
- I. Increased demand for the country's exports.
 - II. Increased trade union militancy resulting in wage increases.
 - III. Increased bank lending
 - IV. An increased public sector borrowing
 - V. An increased balance of payment surplus.
17. Price stability occurs when
- I. All prices in the economy are constant
 - II. The rate of inflation is zero
 - III. The rate of inflation is constant.
 - IV. The general price level increases at a steady rate
 - V. Real per capital income level remains constant.

A/L 2005

18. The monetary aggregate M_2 is defined as
- I. All assets which are highly liquid but which themselves **cannot** be used for day-to-day transactions.
 - II. M_1 plus close substitutes such as savings and NRFC deposits which are easily converted into M_1
 - III. M_1 plus all assets which can be converted into M_1
 - IV. M_1 plus certificates of Deposits plus Credit and Debit card balances.
 - V. M_1 plus savings and time deposits at the commercial banks held by the public

19. Which of the following is the least liquid of the assets of a commercial bank?

- I. Treasury bills
- II. Balance at the central bank
- III. Cash in tills
- IV. Advances to customers
- V. Money at call

20. The Central Bank can decrease the money supply by

- I. Selling bonds to the public
- II. Lowering reserve requirements
- III. Lowering the discount rate
- IV. Buying foreign exchange
- V. Open market purchases.

21. The Table below shows the values of selected economic variables expressed in the form of index numbers.

Year	Price level	Money supply	Velocity of circulation	Number of final transactions.
1	100	100	100	100
2	?	120	100	80

What is the index for the price level in year 2?

- I. 100
- II. 120
- III. 150
- IV. 180
- V. 200

22. If both nominal national income and the price level doubled

- I. Nominal income would be increasing
- II. Real income would be increasing.
- III. Inflation exists.
- IV. Relative prices would be increasing.
- V. Both (i) and (iii) are possible.

A/L 2006

23. Which one of the following statements accurately defines monetary policy? It is a policy concerned with

- I. the direct control of prices and incomes
- II. the control of taxation and government spending
- III. the control of interest rates and money supply
- IV. managing the government budget
- V. foreign exchange rate

24. Which of the following is most likely to have led to an increase in money supply in Sri Lanka in recent Year's?
- An increase in bank lending
 - An increase in exports
 - An increase in interest rates
 - An increase in oil prices
 - An appreciation of the external value of rupees.
25. If the statutory reserve ratio were raised,
- Bank would have to increase their loans.
 - The money supply would fall.
 - The money supply would rise.
 - The discount rate would rise.
 - Bank could increase their demand deposit liabilities.
26. When the central bank purchases government securities, it leads to
- An increase in reserve money (high powered money)
 - A decrease in reserve money (high powered money)
 - A decrease in demand deposits.
 - An increase in interest rates.
 - A decrease in the money supply.
27. Inflation is a
- Sustained rise in the general price level.
 - Sustained fall in the general price level.
 - Rate of change in the consumer price index.
 - Rate of increase in the consumer price index.
 - Rate of change in the purchasing power of money.
28. Assume that the nominal GDP is Rs. 50 billion and the quantity of money is Rs.20 billion, then the velocity of money is
- 0.4
 - 2.5
 - 3.0
 - 4.0
 - 7.0
29. If real GDP in the economy is Rs. 8,000 billion in the current year and nominal GDP is Rs. 6,000 billion in the same year , then the GDP deflator equals
- 0.75
 - 1.33
 - 1.66
 - 1.75
 - 2.00

A/L 2008

30. What is the maximum amount by which the money supply can be increased by the banking system due to an initial deposit of Rs. 20,000 when the statutory reserve requirement equals 25%?

- I. Rs. 20,000
- II. Rs. 25,000
- III. Rs. 60,000
- IV. Rs. 65,000
- V. Rs.100,000

31. Other things being equal, what will cause a reduction in the stock of money?

- I. A balance of payments surplus
- II. An increase in the public demand for bank advances
- III. An increase in the public's desired ratio of cash to bank deposits
- IV. An increase in the public sector borrowing.
- V. A reduction in the statutory reserve requirement

32. What will be the effect of a central bank's purchase of securities on the money supply and on the level of interest rates?

	Effect on money supply	Effect on interest rates
I.	Increase	Increase
II.	Increase	Reduction
III.	reduction	Increase
IV.	reduction	Reduction
V.	remains unchanged	increase

33. The Table shows the values of selected economic variables expressed in the form of index numbers.

Year	Money stock	Velocity of Circulation (v)	Price Level (P)	Number of Transactions (T)
Year 1	100	100	100	100
Year 2	120	100	?	80

What is the index for the price level in year 2?

- I. 100
- II. 120
- III. 150
- IV. 180
- V. 200

34. A major cause of cost inflation is

- I. An increase in the price of raw materials resulting an increase in the price of final goods.
- II. An increase in the demand for products resulting an increase in the price of final goods.
- III. An increase in the level of consumption resulting an increase in the price of final goods.
- IV. An increase in the supply of final goods resulting in an increase in the price of final goods.
- V. An increase in the money supply resulting in an increase in the price of final goods.

A/L 2009

35. When other factors remain constant, what will cause a reduction in the stock of money?
- A balance of payments surplus
 - An increase in the public's demand for bank advances
 - An increase in the public's desired ratio of cash to bank deposits
 - An increase in the government's borrowing from the banking system
 - A decrease in the statutory reserve ratio
36. A commercial bank has excess reserves of Rs. 10 000 and deposit liabilities of Rs. 80 000. If the reserve ratio is 20%, then the bank has actual reserves of
- Rs. 6 000
 - Rs. 16 000
 - Rs. 20 000
 - Rs. 26 000
 - Rs. 36 000
37. When commercial bank reduce their holdings of excess reserves,
- The money supply falls.
 - The monetary base increases
 - The money supply increases.
 - The monetary base falls.
 - The deposit multiplier falls.
38. When the Central Bank sells government securities to a commercial bank,
- Reserves in the banking system increase.
 - Reserves in the banking system remain unchanged.
 - Reserves in the banking system decline.
 - Central Bank's liabilities remain unchanged.
 - Money supply will increase.
39. In a given year, it was found that the money supply in a certain economy had decreased, but the nominal value of its Gross National product (GNP) and the price level had both remained unchanged. Which of the following must also have occurred during the year?
- A decrease in the interest rate
 - An increase in the velocity of circulation of money
 - A decrease in the velocity of circulation of money
 - A decrease in real GNP
 - An increase in the demand for money
40. What action could the central bank take in order to reduce the rate of inflation?
- Sell government securities to create a surplus of funds in the market
 - Sell government securities to create a shortage of funds in the market
 - Buy government securities to create a surplus of funds in the market.
 - Buy government securities to create a shortage of funds in the market.
 - Lower the statutory reserve ratio to create a shortage of funds in the market.

41. Which one of the following is most likely to be an example of a supply-side economic policy?
- I. A reduction in the rate of interest to reduce inflation
 - II. An increase in government expenditure on state pensions
 - III. A reduction in company taxes to encourage greater investment by private sector
 - IV. A rise in the exchange rate to increase exports
 - V. Nationalization of private sector enterprises.

A/L 2010

42. In 2009, an economy's nominal national income grew by 8%, the price level rose by 4% and the population grew by 1%. From this information, it can be concluded that real national income per head grew by
- I. Exactly 4%
 - II. More than 4%
 - III. Less than 3%
 - IV. Exactly 3%
 - V. More than 3%
43. Suppose the Gross Domestic product of a country is Rs. 6,000 billion, and the index of general price level stands at 150, what is the country's Gross domestic product, valued in the prices of the base year of the price index?
- I. Rs. 7,500 billion
 - II. Rs. 4,000 billion
 - III. Rs. 3,500 billion
 - IV. Rs. 3,000 billion
 - V. Rs. 2,000 billion
44. One of the commercial banks in the banking system, has Rs. 400 million in reserves, and Rs. 3,500 million deposits, then, one customer of the bank deposits Rs. 100 million in cash at the same bank. If the statutory reserve requirement is 10%, what is the amount of excess reserves of the bank after the cash deposit?
- I. Rs. 380 million
 - II. Rs. 360 million
 - III. Rs. 240 million
 - IV. Rs. 140 million
 - V. Rs. 40 million
45. When the Central Bank of Sri Lanka is engaged in reverse repurchase agreements with commercial banks, it leads to
- I. A decrease in reserves.
 - II. An increase in interest rates in the money market.
 - III. A decrease in the money supply.
 - IV. Set an upper limit for the interest rates in the call money market.
 - V. Set a lower limit for the interest rates in the call money market.

46. The speculation demand for money suggests that
- Individuals hold onto money for the purpose of engaging in transactions.
 - As the rate of interest rise, the demand for money will rise.
 - When the economy becomes more uncertain, people are more likely to hold onto money.
 - The velocity of money is constant.
 - As the rate of interest falls, the demand for money will rise.
47. Which one of the following is a cause of demand-pull inflation?
- A sharp increase in the price of oil.
 - Higher wages negotiated by the unions.
 - Open market purchases of government securities by the central Bank.
 - Open market sales of government securities by the Central Bank.
 - A decrease in government purchase of goods and services.

A/L 2011

48. The following table shows the balance sheet of a commercial bank in a banking system.

Liabilities (million rupees)		Assets (million rupees)	
Deposits	2 000	Reserves	500
		Loans	1 500
Total	2 000	Total	2 000

If the statutory reserve requirement is 15 %, this commercial bank has excess reserves of

- Rs. 200 million
 - Rs. 300 million
 - Rs. 500 million.
 - Rs. 1 500 million.
 - Rs. 1 700 million
49. Which of the following is a liability of a commercial bank?
- Time and saving deposits
 - Cash on hand
 - Deposits on central Bank
 - Commercial bills discounted
 - Bank overdraft facilities.
50. When the Central Bank of Sri Lanka enters into a reverse repo agreement with commercial banks.
- Interest rates in the call money market will move upwards.
 - Interest rates in the call money market will move downwards.
 - Money supply will be contracted.
 - The deposits held by the commercial banks with the Central Bank will be reduced.
 - Interest rates in the call money market will not be affected.
51. Disinflation is
- A decline in the general price level.
 - Negative inflation.
 - A decline in prices of essential goods.

- IV. A decrease in the rate of inflation.
- V. The deliberate reduction of the value of one currency in terms of another.

A/L 2012

52. If the reserve requirement is 20% , the existence of Rs. 100 million worth of excess in the banking system can lead to a maximum expansion of money supply equal to
- I. Rs. 20 million.
 - II. Rs. 100 million.
 - III. Rs. 300 million.
 - IV. Rs. 500 million
 - V. Rs. 750. Million.
53. If the public's desire to hold money as currency increases, what the impact be on the banking system?
- I. Banks would be mare able to increase their liquid assets.
 - II. Banks would be more able to increase their earning assets.
 - III. Banks would be less able to reduce interest rates they charge.
 - IV. Banks would be more able to expand credit.
 - V. Banks would be less able to expand credit.
54. Suppose the amount of reserves in the commercial banking system equals Rs. 100 billion, the amount of deposits. Equals Rs. 800 billion, and the amount of currency held by public equals Rs. 200 billion , Under these circumstances the money multiplier would equal
- I. 0.30
 - II. 0.37
 - III. 2.70
 - IV. 2.95
 - V. 3.33
55. An open market purchase of government securities by the central bank will
- I. Increase bank reserves and thus increase the monetary base.
 - II. Decrease bank reserves and thus decrease the monetary base.
 - III. Increase bank reserves and decrease the monetary base.
 - IV. Decrease bank reserves and increase the monetary base.
 - V. Decrease bank reserves but increase the money supply if banks have excess reserves
56. In an economy where nominal GNP is Rs. 5000 billion and the money supply is Rs. 1000 billion, the velocity of circulation is
- I. 0.2,
 - II. 0.5,
 - III. 5
 - IV. 4 000
 - V. 6 000

A/L 2013

57. A closed economy has a banking system consisting of a single bank. The bank operates with a reserve ratio of 10%. Customers deposit Rs. 10,000 in cash. Assuming no subsequent change in notes and coins in circulation what is the maximum of loans that the bank can grant?

- I. Rs. 1,000
- II. Rs. 9000
- III. Rs 10,000
- IV. Rs. 90,000
- V. Rs. 100,000

58. According to Keynesian theory, in which circumstances would there always be an increase in the demand for money?

	Real Income	Price Level	Interest Rates
I.	Increase	Decrease	Increase
II.	Constant	Constant	Increase
III.	Increase	Increase	Decrease
IV.	Constant	Decrease	Decrease
V.	Decrease	Constant	increase

59. In an economy, the volume of output rises by 2% in a year, while the quantity of money rises by 5%. If the velocity of circulation of money remains the same, what will be the approximate increases in the price level and the nominal value of total output?

	Increase in price level	Increase in nominal value of total output
I.	2%	5%
II.	2%	7%
III.	2.5%	10%
IV.	3%	5%
V.	3%	7%

60. 'The following table gives index numbers for a measure of an economy's nominal value of Gross Domestic product for the period 2008-2012

Year	Nominal value of Gross Domestic Product (GDP)
2008	100
2009	96
2010	90
2011	85
2012	83

From the data it can be concluded that from 2008-2012 there must have been a fall in

- I. Aggregate demand
- II. Real output
- III. The rate of inflation
- IV. The government budget deficit
- V. Deficit in the trade balance.

61. In one Year, total spending on consumption, investment and government purchases was equal to 103 percent of a country's Gross Domestic product. This would be possible only if

- I. The money supply increased.
- II. Net exports were positive.
- III. Net exports were negative.
- IV. The government ran a budget surplus.
- V. The government had a balance budget.

62. Assume that the economy is at full employment. Policymakers wish to maintain the price level stable. But want to encourage greater investment. Which of the following combinations of monetary and fiscal policies would best achieve this goal?

	Monetary Policy	Fiscal Policy
I.	No change	Contractionary
II.	Expansionary	No change
III.	Expansionary	Contractionary
IV.	Expansionary	Expansionary
V.	Contractionary	Expansionary

63. Which of the following policy choices represents a combination of fiscal and monetary policies designed to bring the economy out of recession?

- I. Decreasing both taxes and the money supply
- II. Increasing both taxes and the money supply
- III. Increasing government spending and decreasing the central bank interest rates.
- IV. Increasing both taxes and the discount rate
- V. Engaging in deficit budgeting and selling securities in the open market.

A/L 2014

64. The correct statement regarding money supply and income is that,

- I. Both money supply and income are flows as well as stock
- II. Money supply is a flow while income is a stock
- III. Both money supply and income are flows.
- IV. Both money supply and income are stocks
- V. Money supply is a stock while income is a flow.

65. The demand for money of a country is determined by

- I. Interest rate and amount of high powered money
- II. Value of money multiplier and interest rate
- III. Interest rate and unemployment

- IV. Real income and interest rate
 - V. Amount of high powered money and value of money multiplier.
66. A decline in price level
- I. Has no impact on value of money
 - II. Increases the value of money
 - III. Has no impact on value of money in the long run
 - IV. Has no impact on value of money in the short run
 - V. Reduces the value of money
67. The M_{2b} of money supply of Sri Lanka consists of
- I. High powered money plus foreign currency deposits
 - II. Demand deposits plus foreign currency deposits
 - III. Fixed deposits plus foreign currency deposits
 - IV. Narrow money supply plus time and saving deposits of commercial bank
 - V. Broad money supply plus foreign currency deposits.
68. Suppose that the growth of nominal Gross Domestic Product is 13.5%, inflation rate is 6% and the rate of growth of population is 1.2 % for a hypothetical economy. What is the rate of growth of Real per Capital Gross Domestic Product of the economy?
- I. -1.2%
 - II. 1.05%
 - III. 6.25%
 - IV. 7.05%
 - V. 7.5%
69. Suppose that the value of Gross National Product of a particular year at constant prices is higher than that of the base year in an economy. This is due to
- I. A decrease in general price level and an increase in unemployment
 - II. An increase in general price level and a decrease in output.
 - III. A decrease in general price level and an increase in output.
 - IV. An increase in general price level in a rate higher than the increase in output.
 - V. An increase in general price level and a decrease in unemployment.
70. A macroeconomic objective expected to be achieved by reducing the rate of interest in an economy is,
- I. Decrease in consumption due to increase in investment and price level
 - II. Increase in production due to increase in investment and aggregate demand.
 - III. Increase in profit of firms due to increase in consumption and investment
 - IV. Increase in government tax revenue due to increase in savings and decrease in consumption
 - V. Emergence of new investments due to increase in share prices and business profits.
71. Examples for expansionary monetary and fiscal policy measures are,
- I. Increasing the statutory reserve ratio and reducing tax rates.
 - II. Selling of government securities by the central bank in the open market and reducing tax rates.

- III. Increasing the statutory reserve ratio and increasing government purchasing.
- IV. Purchasing of government securities by the central bank in the open market and reducing tax rates.
- V. Increasing the interest rate and increasing government purchasing.

72. Macroeconomic stability of an open economy is well reflected by

- I. Price level and foreign exchange rate
- II. Price level and employment rate
- III. Foreign exchange rate and employment rate
- IV. Balance of payment and foreign exchange rate
- V. Inflation and unemployment rate

A/L 2015

73. Which of the following groups would actually benefit from an occurrence of unexpectedly high inflationary price increase?

- I. Retired workers
- II. Lenders
- III. Wage earners
- IV. Elderly people who have saved money during their working years.
- V. Borrowers

74. When an economy is at full employment, which of the following will most likely to generate demand pull inflation?

- I. A decrease in the budget deficit
- II. A decrease in net exports
- III. A decrease in trade union power
- IV. A decrease in the real rate of interest
- V. A decrease in the money supply.

75. Over a period of one year a country's inflation rate was 12%. Over the same period the growth of nominal gross National Product was 14%. Which of the following correctly describes what happened during the one year period?

- I. The money supply decreases by 2 %
- II. The money supply increased by 2 %.
- III. Real GNP increased
- IV. Real GNP fell
- V. Velocity of circulation of money increased

76. The concept of 'near money' refers to

- I. Financial assets whose capital values are too unstable for them to be classified as money.
- II. Liquid assets that fulfill the medium of exchange function but not the store of value function.
- III. Liquid assets that fulfill the store of value function but not the medium of exchange function.
- IV. Cheques on demand deposits.
- V. Credit Cards.

77. The largest component of M4 Monetary aggregate in Sri Lanka at present is
- Currency held by the public.
 - Demand deposits held by the public.
 - Quasi money held by the public with licensed finance companies.
 - Quasi money held by the public with commercial banks.
 - Quasi money held by the public with licensed specialized banks.
78. Suppose that in a commercial banking system. All banks maintain 20% of deposits as a cash reserve. One bank receives a new cash deposit of Rs. 200 million. If there is no subsequent change in currency in circulation, what will be the maximum amount of loans that the banking system can grant as a result of the new deposit?
- Rs. 160 million.
 - Rs. 200 million.
 - Rs. 800 million.
 - Rs. 1000 million.
 - Rs. 1200 million.
79. Which one of the following would be expected to occur as the result of an open market sale of government securities by the Central Bank?
- Increase in real GDP.
 - Increase in interest rates charged on loans.
 - Increase in number of loans made by banks.
 - Increase in private investment spending.
 - Increase in the money supply.

A/L 2016

80. According to the quantity Theory of Money, a 10% increase in the nominal money supply will lead to
- A 10% increase in the real money supply.
 - An increase in real output of 10%.
 - A 10% decrease in the interest rate.
 - 10% increase in the general price level.
 - An offsetting decrease in the velocity of circulation of money.
81. Assuming a country's national income is at the full employment level, which one of the following circumstances is most likely to cause inflation?
- A fall in interest rates
 - A rise in labour productivity
 - An appreciation of the exchange rate
 - A rise in marginal propensity to import
 - An increase in the rates of personal income tax
82. Commercial banks can create money by
- Converting reserves into securities.
 - Buying treasury bills from the Central Bank.
 - Sending cash in hand to the Central Bank.
 - Maintaining a 100% reserve requirement.

- V. Lending excess reserves to customers.
83. Suppose an individual withdraws Rs. 10 000 from his deposit account in a commercial bank. If all else is constant, and the bank has a statutory reserve requirement of 20% , this transaction will directly reduce
- The money supply by Rs. 10 000.
 - Bank deposits by Rs. 10 000.
 - The money supply by Rs. 50 000.
 - Bank deposits by Rs. 50 000.
 - Bank deposits by Rs. 8 000.
84. Sri Lankan commercial banks maintain their statutory reserves in the form of
- Cash in hand and deposits at the Central Bank.
 - Cash in hand and Treasury Bills,
 - Gold and foreign currency in their bank vaults.
 - Deposits at other commercial banks that are immediately accessible.
 - Deposits and foreign currency at the Central Bank.
85. If the Central Bank purchases Treasury Bills from a Commercial bank, what happens to bank reserves and the money supply?

	Bank reserves	Money supply
I.	increase	decrease
II.	increase	increase
III.	decrease	decrease
IV.	decrease	increase
V.	increase	No change

86. Suppose in a given country, the general level of prices has risen in the past year, but production of goods and services has remained constant. Based on this information. Which of the following is correct?

	Nominal GDP	Real GDP
I.	Increased	Increased
II.	Unchanged	Unchanged
III.	Decreased	Decreased
IV.	Increased	Unchanged
V.	Decreased	Increased

A/L 2017

87. What is meant by 'the value of money'?
- The amount of goods and services that can be purchased with a given amount of money
 - The amount of wealth stored in the form of money
 - The amount of gold reserves kept at the central Bank
 - The cost of production of Coins and notes.
 - The opportunity cost of holding wealth in the form of money
88. What will be the probable effects of an increase in the value added Tax (VAT) on demand –pull inflation and cost-push inflation?

	<i>Demand-pull inflation</i>	<i>Cost-push inflation</i>
I.	Decrease	Increase
II.	Increase	Decrease
III.	Increase	Increase
IV.	Decrease	Decrease
V.	Increase	Unaffected

89. Which one of the following assets is most liquid?

- I. Saving deposits
- II. Treasury bills
- III. Demand deposits.
- IV. Treasury bonds
- V. Real estate.

90. Suppose you deposit Rs. 10 000 in your deposit account in a commercial bank. If the bank wishes to hold 20% of all deposits on reserve, how much new deposits can it create as a direct result of your deposit?

- I. Rs. 8 000
- II. Rs. 10 000
- III. Rs. 40 000
- IV. Rs. 50 000
- V. Rs. 52 000

91. Which of the following happens when the central Bank reduces its policy interest rate?

- I. The demand for money decreases and market interest rates decrease
- II. The demand for money increases and market interest rates increase.
- III. The supply of money decreases and market interest rates decrease
- IV. The supply of money increases and market interest rates decrease
- V. The demand for money, the supply of money and market interest rates increase

92. The primary goal of the Central Bank of Sri Lanka in the conduct of its monetary policy at present is

- I. To stabilize inflation at mid-single digit over the medium term.
- II. To maintain the external value of the rupee at a stable level.
- III. To facilitate the government in budget deficit financing.
- IV. To achieve a sustainable economic growth.
- V. To reduce the burden of public debt.

93. What will happen to the money supply and the equilibrium interest rate if the Central Bank sells securities in the open market?

	Money Supply	Equilibrium Interest Rate
I.	Increase	Increase
II.	Decrease	Increase
III.	Increase	Decrease
IV.	Decrease	Decrease
V.	Decrease	No Change

94. Suppose GDP of a country in current prices increased by approximately 8% between one period and the next, but real GDP fell by 2% in the same period. Which one of the following explanations is most likely?

- I. General Price level fell by 4%.

- II. General Price level fell by 8%.
- III. General Price level increased by 4%.
- IV. General Price level increased by 8%.
- V. General Price level increased by 10%.

A/L 2018

95. What is the base year of the National Consumer Price Index in Sri Lanka?

- I. 1951
- II. 2006/07
- III. 2010
- IV. 2012/13
- V. 2014

96. Which of the following would generate a cost- push inflation?

- I. An increase in the price of labour
- II. A decrease in the price of electricity
- III. An increase in household consumption
- IV. A decrease in government purchases
- V. An increase in the money supply

97. Which is most likely to cause an increase of the money supply in a certain country?

- I. A Balance of Payments surplus
- II. A government budget surplus
- III. Cash withdrawal by commercial bank depositors
- IV. Recall of loans by the commercial banks
- V. Selling securities to commercial banks by the Central Bank

98. The transaction demand for money is very closely associated with money's function as a

- I. Store of value.
- II. Standard unit of account
- III. Measure of value.
- IV. Medium of exchange
- V. Standard of deferred payment

99. Which of the following is a liability of a commercial bank Balance Sheet?

- I. Treasury bills
- II. Customer deposits
- III. Loans and advances
- IV. Money at call
- V. Bills discounted

100. What are the key policy tools used by the Central Bank of Sri Lanka in conducting its monetary policy at present?

- I. Bank rate and policy rates
- II. Statutory reserve requirements and open market operations
- III. Moral suasion and policy rates
- IV. Credit squeeze and statutory reserve requirements
- V. Policy rates and open market operations

A/ L 2003

1.
 - i) Distinguish between money market and capital market. (2 marks)
 - ii) What is the difference between “near money” and “money substitutes”? (04 marks)
 - iii) What is meant by the, “base money” (high powered money)? (04 marks)
 - iv) Suppose that the statutory reserve ratio is 15% and that the bank has cash reserves of Rs. 30 million, loans and investments of Rs. 170 million, and demand deposits of Rs. 200 million.
 - a) Assume that this bank operates within a banking system. Can this bank expand its loans? Give reasons for your answer. (03 marks)
 - b) What will be the increase or decrease in the quantum of bank lending if reserve ratio is reduced to 10%. (02 marks)
2.
 - i) “Nominal interest rates are always positive” Do you think that real interest rates are also positive? (02 marks)
 - ii) What is the main difference between treasury bills and treasury bonds? (02 marks)
 - iii) What is Central Bank Repurchase (Repo) market and why is it important? (05 marks)
 - iv) What method does the Central Bank use for reducing the money supply? (06 marks)

A/L 2004

3.
 - i) What are the objectives of the Central Bank of Sri Lanka according to the Monetary Law Act as amended in 2002. (2 marks)
 - ii) Distinguish between money, near money and money substitutes. (3 marks)
 - iii) What is the difference between monetary base and money supply? (4 marks)
 - iv) Why do people demand money? Explain. (6 marks)
4.
 - i) Outline the main types of financial intermediaries operating in Sri Lanka. (4 marks)
 - ii) Suppose that the statutory reserve ratio is 10 percent and the balance sheet of one of the commercial banks in a hypothetical economy looks like the following.

(Figures are in Rs. Millions)

Liabilities		Assets	
Demand Deposits	200 000	Reserves	50 000
Shareholders' Equity	50 000	Securities	55 000
		Loans	145 000
	<u>250 000</u>		<u>250 000</u>

Does the bank have any excess reserves? If so, how much? (2 marks)

- iii) What is the maximum loan that this bank could extend? (2 marks)
- iv) Indicate how the bank's balance sheet would be altered if it extended this loan. (3 marks)
- v) If the required reserve ratio were 20 percent, would the bank be in a position to extend any additional loans? Explain. (4 marks)

A/L 2005

5.

- i) Assume a competitive banking system in which commercial banks make loans to the full amount of any excess reserves they acquire and the commercial banks operate at a statutory reserve ratio of 25%. They hold deposits from the public of Rs. 2000 million. The total money supply (M_1) is Rs. 2500 million.
 - a) What is the amount of loans that the banks have made? (2 marks)
 - b) Assume that the public deposits Rs. 100 million of the notes and coins they hold. Explain what will happen to the total deposits as the banks adjust their final lending. (4 marks)
 - c) What is the value of money supply (M_1) after all adjustments have been made? (4 marks)
- ii) Explain why the amount of credit created in practice may be less than what the deposit multiplier suggests. (5 marks)

6.

- i) How does Open market operations of the Central Bank affect the level of reserves of the banking system? (5 marks)
- ii) What is the effect of the Open market Operations on the money market? (5 marks)
- iii) Explain the effect of the change in money market on aggregate demand. (5 marks)

A/L 2006

- 7. Suppose that money supply in a hypothetical economy is Rs. 110 billion. Of this, Rs. 10 billion is currency held by the general public and Rs. 100 billion is bank deposits. The central Bank has decreed that commercial banks must keep 10% of their total deposit liabilities in the form of currency. So the banking system has Rs. 10 billion worth of currency in bank vaults and Rs. 90 billion worth of loans on its books.
 - i) What is the value of the deposit multiplier? (3 marks)
 - ii) The Central Bank increases the reserve ratio to 25%. Assuming that there is no change in the amount of currency held by the general public, and the commercial banks do not maintain any excess reserves, what will be the
 - a) New level of bank assets and liabilities? (4 marks)
 - b) The new level of money supply? (2 marks)
 - iii) What would the answers for part (b) if the reserve ratio were 5% (6 marks)
- 8.
 - i) List the main items of liquid assets of the Licensed Commercial Banks in Sri Lanka. (5 marks)
 - ii) Identify the main channels of monetary policy transmission (5 marks)
 - iii) "The broad measure of money supply (M_2b) increased by 19.6% in Sri Lanka in 2004" Outline the factors which have led to this growth in the broad money supply. (5 marks)

A/L 2008

9.

- i) For a commercial bank, which of the following items represent assets and which represent liabilities?
- Demand with the Central Bank –
 - Bank office equipment –
 - Deposits with the Central Bank –
 - Loans to business sector –
 - Foreign borrowings –
- (05 marks)
- ii) A hypothetical balance sheet of a commercial banking system is given below:

Liabilities (Rs. Million)		Assets (Rs. Million)	
Demand Deposits	1,000	Reserves	200
		Loans	800
Total	1,000	Total	1,000

Further, the currency held by public in this economy is Rs. 1,200 million and there is an excess reserve of Rs. 100 million in the banking system.

- Calculate the maximum possible amount of total money supply in this economy when the full credit creation is completed. (03 marks)
 - If the legal reserve ratio increases to 25% and the currency held by the public remains unchanged, calculate the maximum possible amount of total money supply when full credit creates is completed. (02 marks)
- iii) “Reserve money in Sri Lanka increased by Rs. 42 billion or 21.2% in 2006”. (Annual Report of the Central Bank of Sri Lanka). Explain the reasons for this increase. (05 marks)

10.

- Name five sub-markets comprising the financial market structure of Sri Lanka. (05 marks)
- What is meant by “Credit rating”? How important is it to improve confidence in the financial system? (04 marks)
- What do you mean by policy interest rates of the Central Bank of Sri Lanka? (04 marks)
- Describe the process through the changes in policy interest rates affect the price level and output. (04 marks)

11.

- Define the terms “inflation” deflation” and “disinflation”. (03 marks)
- Name four indices used in Sri Lanka to measure general price level (04 marks)
- What are the limitations of the Colombo Consumers Price Index (CCPI) as a measure of general price level? (04 marks)
- What are the economic costs of inflation? (04 marks)

A/L 2009

12.

- i) Outline the main functions of money. (04 marks)
- ii) Why do people hold money when higher yielding assets are available? (03 marks)
- iii) What is meant by “Sovereign credit rating? (02 marks)
- iv) Identify three important sources of raising funds by the commercial banks in Sri Lanka. (03 marks)
- v) How does the reverse repurchase activities of the Central Bank affect the interest rates in the call money market? (03 marks)

13.

- i) What are the target variables chosen by the Central Bank of Sri Lanka in the implementation of the monetary policy at preset? (04 marks)
- ii) What are the main features of the tight money policy adopted by the Central Bank of Sri Lanka in recent years to maintain economic stability? (04 marks)
- iii) Distinguish between “headline inflation and “Core inflation” (04 marks)
- iv) State three main factors that have contributed to accelerate the rate of inflation in Sri Lanka during the period 2005-2008. (03 marks)

A/L 2010

14.

- i) Calculate the velocity of circulation of money if real GDP is 3,000 units, the average price level is Rs. 4 per unit and the quantity of money in the economy is Rs. 1,500. (02 marks)
- ii) Use the Equation of exchange to explain why money growth and inflation tend to be closely linked. (02 marks)
- iii) Distinguish between monetary aggregates M_2 and M_{2b} . (04 marks)
- iv) Explain how change in the money supply affects aggregate demand. (04 marks)
- v) Examine the relationship between the interest rate and the asset demand for money. (03 marks)

15.

- i) State the main functions of commercial banks in Sri Lanka. (03 marks)
- ii) Name the top three purposes to which the commercial bank lending in Sri Lanka has been directed at? (03 marks)
- iii) What is meant by fractional reserve banking? (03 marks)
- iv) Suppose the central Bank wants to reduce money supply. Describe the measures it might take and how these measures would accomplish Central bank’s objective. (06 marks)

A/L 2011

16.

- i) What is meant by a 'double coincidence of wants'? (03 marks)
- ii) Explain why credit cards are not money. (03 marks)
- iii) What are the three principal conditions required for the banking system to create money? (03 marks)
- iv) Suppose that the Central Bank purchases a bond for Rs. 100 000 from a brokerage firm which deposits the proceeds in one of the commercial banks in the banking system.
 - a) What will be the impact of this transaction on the supply of money? (02 marks)
 - b) If the reserve requirement ratio is 20%, what is the maximum amount of additional loans that this commercial bank will be able to extend as a result of this deposit? (02 marks)
 - c) Given the 20% reserve requirement, what is the maximum increase in the amount of deposits that could result throughout the entire banking system because of the Central Bank's action? (02 marks)
 - d) Would you expect this to happen? Explain your answer. (02 marks)
- v) Identify three lending programmes implemented by the Central Bank of Sri Lanka in order to promote regional development and poverty alleviation. (03 marks)

A/L 2012

17.

- i) What are the principal reasons for people demanding money? (03 marks)
- ii) What is 'near money'? What are the near money components in M4 monetary aggregate? (05 marks)
- iii) Assume that one of the commercial banks in the banking system has cash reserves of Rs. 200 billion, loans of Rs. 800 billion and deposits of Rs. 1000 billion
 - a) Prepare a balance sheet for this bank. (02 marks)
 - b) If the bank maintains a reserve requirement of 12%, what is the largest loan it can make? (02 marks)
- iv) What factors could cause the actual expansion of the money supply to differ from that given by the deposit expansion multiplier? (04 marks)
- v) Explain how the open market operations are conducted by the Central Bank to contract money supply. (04 marks)

A/L 2013

18.

- i) What do you mean by "high Powered money"? Explain briefly how high powered money may be created by a central bank. (04 marks)
- ii) What are the determinants of money supply in an economy? (04 marks)
- iii) What are the major categories of financial institutions that make up the Sri Lanka's financial system? (04 marks)

- iv) Assume that for a hypothetical economy, money supply (M) is Rs 1,200 billion, total bank deposits (D) are Rs. 800 billion, the required reserve – deposit ratio is 10% and that banks do not hold excess reserves. (04 marks)
- (a) What is the value of the money multiplier for this economy?
- (b) If the central bank purchases Rs. 3 billion worth of Treasury bills from the commercial banks, what is the greatest amount by which total money supply could change?
- v) Present a brief exposition on “the quantity theory of money”. Identify the assumptions associated with it. (04 marks)

A/L 2014

19.

- i) Explain, using a diagram, the relationship between and money demand for transaction motive. (5 marks)
- ii) Explain why credit are taken into account while debit cards are not when determining money supply of a country. (5 marks)
- iii) What are the objectives of the central Bank of Sri Lanka? Explain how these objectives are achieved. (5 marks)
- iv) Explain the qualitative credit control measures used by Central Bank in order to control money supply of a country. (5 marks)

A/L 2015

20.

- i) Define ‘money’ and briefly describe how money has removed the defects of the barter system. (4 marks)
- ii) Explain why credit cards are not money. (2 marks)
- iii) List the macroeconomic variables that determine the demand for money in the economy, briefly explain how these variables affect the demand for money. (4 marks)
- iv) How would you distinguish between demand-pull inflation and cost-push inflation? Explain your answer using necessary diagrams. (4 marks)
- v) Why there is very high level of excess liquidity in the domestic money market in Sri Lanka at present? What measures have been taken by the Central Bank of Sri Lanka to absorb the excess liquidity of the banking system? (6 marks)

A/L 2016

21.

- i) What is the difference between the quantity Theory of Money and the Equation of exchange? (04 marks)

- ii) What are the advantages of the National Consumer price Index over the Colombo Consumer price Index as a measure of cost of living in Sri Lanka? (04 marks)
- iii) Why do people hold money? What effect does the level of income have on the amount of money people hold? (04 marks)
- iv) Assume that for a hypothetical economy, money supply (M) is Rs. 3 600 billion, total bank deposits (D) are Rs. 3 200 billion, the statutory reserve ratio is 10% and the banks do not hold excess reserves.
 - a) What is the value of money multiplier for this economy? (02 marks)
 - b) What should the Central Bank do to decrease money supply by Rs. 100 million in this economy? (02 marks)
- v) How the Central Bank of Sri Lanka does operates the Standing Rate Corridor (SRC) to control the inter-bank call money market interest rates? (04 marks)

A/L 2017

22.

- i) Distinguish between headline inflation and core inflation. (4 mark)
- ii) Identify the components of aggregate expenditure and with the help of a diagram, explain how increase in aggregate spending in an economy might result in inflation. (4 mark)
- iii) The balance sheet for a commercial bank is given below.

Liabilities	Value (Rs. Million)	Assets	Value (Rs. Million)
Deposits	180 000	Reserves	100 000
		Treasury Bonds	40 000
		Loans	40 000
Total Liabilities	180 000	Total assets	180 000

- a) If the statutory reserve ratio is 10%, what is the maximum amount of new loans that this bank could make in the future? (2 marks)
 - b) If Rs. 10 000 million of deposits are withdrawn from this bank, what is the maximum amount of new loans that this bank could make in the future? (2 marks)
- iv) What do you mean by high powered money? Does a Central Bank have a perfect control over the stock of high powered money in the economy? Give reasons. (4 marks)
- v) Briefly explain the main focus of the current monetary policy framework of the Central Bank of Sri Lanka. (4 marks)

A/L 2018

23.

- i) What are the measures currently used in Sri Lanka to indicate the changes in general price level? (3 marks)
- ii) What are the adverse effects of inflation? (4 marks)

- iii) The following is a simplified balance sheet for one of the banks in a commercial banking system in a country.

Liabilities	Value (Rs. Million)	Assets	Value (Rs. Million)
Deposits	100 000	Required reserves	10 000
Shareholders' equity	25 000	Excess reserves	5 000
		Securities	30 000
		Loans	80 000
Total Liabilities	125 000	Total assets	125 000

- What is the required reserve ratio? (2 marks)
 - Assume that a customer withdraws Rs. 2 000 million from his current account at this bank. By how much will this bank's reserve change based on this cash withdrawal? (2 marks)
 - Assuming that the required reserve ratio remains unchanged, what is the maximum amount of new loans that this bank could make after the withdrawal of Rs. 2 000 million deposits? (2 marks)
- iv) What is meant by monetary policy? (3 marks)
- v) Distinguish between quantitative and qualitative credit control methods of the Central Bank of Sri Lanka. (4 marks)