Past paper questions 2012 - 2020
Question 6 – Money, Banking and Price levels

Money
Basic concepts related to money

1. The concept of 'near money' refers to (A/L 2015)
   1) Financial assets whose capital values are too unstable for them to be classified as money.
   2) Liquid assets that fulfill the medium of exchange function but not the store of value function.
   3) Liquid assets that fulfill the store of value function but not the medium of exchange function.
   4) Cheques on demand deposits.
   5) Credit cards.

2. What is meant by 'the value of money'? (A/L 2017)
   1) The amount of goods and services that can be purchased with a given amount of money.
   2) The amount of wealth stored in the form of money.
   3) The amount of gold reserves kept at the Central Bank.
   4) The cost of production of coins and notes.
   5) The opportunity cost of holding wealth in the form of money.

3. Which one of the following assets is most liquid? (A/L 2017)
   1) Saving deposits
   2) Treasury bills
   3) Demand deposits
   4) Treasury bonds
   5) Real estate

4. Define 'money' and briefly describe how money has removed the defects of the barter system. (4 marks)(A/L 2015)

5. Explain why credit cards are not money. (2 marks)(A/L 2014)

Money demand (Liquidity preference)

6. The demand for money of a country is determined by (A/L 2014)
   1) Interest rate and amount of high powered money
   2) Value of money multiplier and interest rate
   3) Interest rate and unemployment
   4) Real income and interest rate
   5) Amount of high powered money and value of money multiplier

7. The transaction demand for money is very closely associated with money's function as a (A/L 2018)
   1) Store of value
   2) Standard unit of account
   3) Measure of value
   4) Medium of exchange
   5) Standard of deferred payment

8. What are the principal reasons for people demanding money? (3 marks)(A/L 2012)

9. Why do people hold money? What effect does the level of income have on the amount of money people hold? (4 marks)(A/L 2016)

10. Distinguish between the transactions demand for money and speculative demand for money. (4 marks)

11. Explain using a diagram the relationship between income and money demand for transaction motive. (5 marks)(A/L 2014)

12. 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)(A/L 2014/2020)

Money supply

13. The correct statement regarding money supply and income is that (A/L 2014)
   1) Both money supply and income are flows as well as stock
   2) Money supply is a flow while income is a stock
   3) Both money supply and income are flows
   4) Both money supply and income are stocks
   5) Money supply is a stock while income is a flow

14. Which is most likely to cause an increase of the money supply in a certain country? (A/L 2018)
   1) A Balance of Payments surplus
   2) A government budget surplus
   3) Cash withdrawal by commercial bank depositors
   4) Recall of loans by the commercial banks
   5) Selling securities to commercial banks by the Central Bank

15. Which of the following will lead to a decrease in an economy’s money supply? (A/L 2019)
   1) A decrease in income tax rates
   2) A decrease in the discount rates
   3) An open market purchase of government securities by the Central bank
   4) An increase in statutory reserve requirement

5) An increase in government expenditure on goods and services

16. The M_2b of money supply of Sri Lanka consists of (A/L 2014)
    1) High powered money plus foreign currency deposits
    2) Demand deposits plus foreign currency deposits
    3) Fixed deposits plus foreign currency deposits
    4) Narrow money supply plus time and saving deposits of commercial bank
    5) Broad money supply plus foreign currency deposits

17. The largest component of M4 monetary aggregate in Sri Lanka at present is (A/L 2015)
    1) Currency held by the public.
    2) Demand deposits held by the public.
    3) Quasi money held by the public with licensed finance companies.
    4) Quasi money held by the public with commercial banks.
    5) Quasi money held by the public with licensed specialized banks.

18. What is 'near money'? What are the near money components in M4 monetary aggregate? (5 marks)(A/L 2012)

19. Explain why credit cards are taken into account while debit cards are not when determining money supply of a country. (5 marks)(A/L 2013)

20. What are the determinants of money supply in an economy? (4 marks)(A/L 2013)

21. What do you mean by "high Powered money"? Explain briefly how high powered money may be created by a central bank. (4 marks)(A/L 2013)

22. 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)(A/L 2017)

<u>Monetary policy and Fiscal policy</u>

23. Monetary policy affects aggregate demand through changes in (A/L 2020)
    1) Direct and indirect tax receipts
    2) Share prices
    3) Export demand
    4) Consumption and investment spending
    5) Government spending

24. What are the key policy tools used by the Central Bank of Sri Lanka in conducting its monetary policy at present? (A/L 2018)
    1) Bank rate and policy rates

2) Statutory reserve requirements and open market operations
3) Moral suasion and policy rates
4) Credit squeeze and statutory reserve requirements
5) Policy rates and open market operations

25. An open market purchase of government securities by the central bank will (A/L 2012)
    1) Increase bank reserves and thus increase the monetary base.
    2) Decrease bank reserves and thus decrease the monetary base.
    3) Increase bank reserves and decrease the monetary base.
    4) Decrease bank reserves and increase the monetary base.
    5) Decrease bank reserves but increase the money supply if banks have excess reserves.

26. Which one of the following would be expected to occur as a result of an open market sale of government securities by the Central Bank? (A/L 2015)
    1) Increase in real GDP.
    2) Increase in interest rates charged on loans.
    3) Increase in number of loans made by banks.
    4) Increase in private investment spending.
    5) Increase in the money supply.

27. What will happen to the money supply and the equilibrium interest rate if the Central Bank sells securities in the open market? (A/L 2017)

	Money Supply	Equilibrium Interest Rate
1)	Increase	Increase
2)	Decrease	Increase
3)	Increase	Decrease
4)	Decrease	Decrease
5)	Decrease	No Change

28. Which of the following happens when the central Bank reduces its policy interest rate? (A/L 2017)
    1) The demand for money decreases and market interest rates decrease.
    2) The demand for money increases and market interest rates increase.
    3) The supply of money decreases and market interest rates decrease.
    4) The supply of money increases and market interest rates decrease.
    5) The demand for money, the supply of money and market interest rates increase.

29. A macroeconomic objective expected to be achieved by reducing the rate of interest in an economy is, (A/L 2014)
    1) Decrease in consumption due to increase in investment and price level.
    2) Increase in production due to increase in investment and aggregate demand.
    3) Increase in profit of firms due to increase in consumption and investment.

4) Increase in government tax revenue due to increase in savings and decrease in consumption.
5) Emergence of new investments due to increase in share prices and business profits.

30. The primary goal of the Central Bank of Sri Lanka in the conduct of its monetary policy at present is (A/L 2017)
    1) To stabilize inflation at mid-single digit over the medium term.
    2) To maintain the external value of the rupee at a stable level.
    3) To facilitate the government in budget deficit financing.
    4) To achieve a sustainable economic growth.
    5) To reduce the burden of public debt.

31. What are the main objectives of the Central Bank of Sri Lanka in implementing monetary policy at present? (A/L/ 2020)
    1) Price stability and financial system stability
    2) Price stability and full employment
    3) Price stability and sustainable development
    4) Full employment and more equal distribution of income
    5) Price stability and reduction in the burden of public debt

32. Examples for expansionary monetary and fiscal policy measures are, (A/L 2014)
    1) Increasing the statutory reserve ratio and reducing tax rates.
    2) Selling of government securities by the central bank in the open market and reducing tax rates.
    3) Increasing the statutory reserve ratio and increasing government purchasing.
    4) Purchasing of government securities by the central bank in the open market and reducing tax rates.
    5) Increasing the interest rate and increasing government purchasing.

33. 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? (A/L 2013)

	Monetary Policy	Fiscal Policy
1)	No change	Contractionary
2)	Expansionary	No change
3)	Expansionary	Contractionary
4)	Expansionary	Expansionary
5)	Contractionary	Expansionary

34. Which of the following policy choices represents a combination of fiscal and monetary policies designed to bring the economy out of recession? (A/L 2013)
    1) Decreasing both taxes and the money supply
    2) Increasing both taxes and the money supply
    3) Increasing government spending and decreasing the central bank interest rates
    4) Increasing both taxes and the discount rate

5) Engaging in deficit budgeting and selling securities in the open market

35. If the government simultaneously engages in expansionary monetary and fiscal policies, which of the following is the effect on interest rate and unemployment? (A/L 2019)

	Interest rate	Unemployment
1)	Increases	Indeterminate
2)	Increases	Decreases
3)	Decreases	Indeterminate
4)	Indeterminate	Decreases
5)	Indeterminate	Increases

36. Macroeconomic stability of an open economy is well reflected by (A/L 2014)
    1) Price level and foreign exchange rate
    2) Price level and employment rate
    3) Foreign exchange rate and employment rate
    4) Balance of payment and foreign exchange rate
    5) Inflation and unemployment rate

37. What is meant by monetary policy? (3 marks)(A/L 2018)

38. Distinguish between quantitative and qualitative credit control methods of the Central Bank of Sri Lanka. (4 marks)(A/L 2018)

39. Explain the qualitative credit control measures used by Central Bank in order to control money supply of a country. (5 marks)(A/L 2014)

40. Explain how the open market operations are conducted by the Central Bank to contract money supply. (4 marks)(A/L 2012)

41. Briefly explain the main focus of the current monetary policy framework of the Central Bank of Sri Lanka. (4 marks)(A/L 2017)

Velocity of money circulation

42. In an economy where nominal GNP is Rs. 5000 billion and the money supply is Rs. 1000 billion, the velocity of circulation is (A/L 2012)

1) 0.2 2) 0.5 3) 5 4) 4000 5) 6000

43. Suppose that in a hypothetical economy, real GDP equals Rs. 80 trillion, nominal GDP equals Rs. 240 trillion, and the general price level equals 3. If the money supply in this economy is Rs. 30 trillion, then the velocity of circulation of money is (A/L 2020)
    1) 8 2) 10 3) 30 4) 80 5) 90

44. 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? (A/L 2013)

	Increase in price level	Increase in nominal value of total output
1)	2%	5%
2)	2%	7%
3)	2.5%	10%
4)	3%	5%
5)	3%	7%

Banking

Concepts related to credit creation

45. Which of the following is a liability of a commercial bank balance sheet? (A/L 2018)
    1) Treasury bills
    2) Customer deposits
    3) Loans and advances
    4) Money at call
    5) Bills discounted

46. Commercial banks can create money by (A/L 2016)
    1) Converting reserves into securities.
    2) Buying treasury bills from the Central Bank.
    3) Sending cash in hand to the Central Bank.
    4) Maintaining a 100% reserve requirement.
    5) Lending excess reserves to customers.

47. Sri Lankan commercial banks maintain their statutory reserves in the form of (A/L 2016)
    1) Cash in hand and deposits at the Central Bank.
    2) Cash in hand and Treasury Bills.
    3) Gold and foreign currency in their bank vaults.
    4) Deposits at other commercial banks that are immediately accessible.
    5) Deposits and foreign currency at the Central Bank.

48. If the Central Bank purchases Treasury Bills from a Commercial bank, what happens to bank reserves and the money supply? (A/L 2016)

	Bank reserves	Money supply
1)	Increase	Decrease
2)	Increase	Increase
3)	Decrease	Decrease
4)	Decrease	Increase
5)	Increase	No change

49. If the public's desire to hold money as currency increases, what the impact be on the banking system? (A/L 2012)
    1) Banks would be mare able to increase their liquid assets.
    2) Banks would be more able to increase their earning assets.
    3) Banks would be less able to reduce interest rates they charge.
    4) Banks would be more able to expand credit.
    5) Banks would be less able to expand credit.

50. What factors could cause the actual expansion of the money supply to differ from that given by the deposit expansion multiplier? (4 marks)(A/L 2012)

<u>Credit creation process</u>

51. If a Rs. 300 million deposit in a commercial bank leads to a Rs. 3 000 million increase in the money supply, the reserve requirement must have been (A/L 2019)
    1) 0.10% 2) 0.12% 3) 10% 4) 12% 5) 100%

52. Suppose the statutory reserve requirement is 10% and the Central Bank conducts an open market purchases of Rs. 300 million from the commercial banks. What is the maximum possible change in the money supply resulting from this purchase? (A/L 2020)
    1) Increase of Rs. 300 million
    2) Decrease of Rs. 300 million
    3) Increase of Rs. 3 000 million
    4) Decrease of Rs. 3 000 million
    5) Decrease of Rs. 2 700 million

53. 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 (A/L 2016)
    1) The money supply by Rs. 10 000
    2) Bank deposits by Rs. 10 000

3) The money supply by Rs. 50 000
4) Bank deposits by Rs. 50 000
5) Bank deposits by Rs. 8 000

54. 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? (A/L 2017)
   1) Rs. 8 000
   2) Rs. 10 000
   3) Rs. 40 000
   4) Rs. 50 000
   5) Rs. 52 000

55. Assume that one of the commercial banks in the banking system has excess reserves of Rs. 400 million and the statutory reserve ratio is 20%. Meanwhile, a customer of this bank deposits Rs. 25 million in his current account and the bank lends Rs. 120 million to another customer. How much additional lending can be granted by this bank now? (A/L 2020)
   1) Rs. 2 125 million
   2) Rs. 2 005 million
   3) Rs. 425 million
   4) Rs. 305 million
   5) Rs. 300 million

56. 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? (A/L 2015)
   1) Rs. 160 million
   2) Rs. 200 million
   3) Rs. 800 million
   4) Rs. 1000 million
   5) Rs. 1200 million

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? (A/L 2013)
   1) Rs. 1 000
   2) Rs. 9 000
   3) Rs. 10 000
   4) Rs. 90 000
   5) Rs. 100 000

58. 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 (A/L 2012)
   1) Rs. 20 million
   2) Rs. 100 million
   3) Rs. 300 million
   4) Rs. 500 million
   5) Rs. 750 million

59. Suppose that all banks keep only the minimum reserves required by law and there are no currency drains. The legal reserve requirement is 10%. If a customer deposits Rs. 1 000 in a current account, what is the maximum amount of increase in total money supply? (A/L 2019)
   1) Rs. 100
   2) Rs. 1 000
   3) Rs. 9 000
   4) Rs. 10 000
   5) Rs. 11 000

60. 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 (A/L 2012)
    1) 0.30   2) 0.37   3) 2.70   4) 2.95   5) 3.33

61. Assume that in a hypothetical economy during a given period of time, total money stock (M) was Rs. 6 400 billion, total amount of bank deposits (D) held by the public was Rs. 5 200 billion, statutory reserve ratio was 10% and the value of excess reserves held by the banks was Rs. 280 billion. (A/L 2020)
    (a) What was the total amount of high-powered money in this economy? (3 marks)
    (b) What was the value of money multiplier? (2 marks)

62. Suppose that a bank customer newly deposits Rs. 10 000 in the current account and the required reserve ratio is 0.25. (4 marks)(A/L 2019)
    (a) What are the required reserves for this new deposit?
    Required reserves for the new deposit:
    (b) What is the maximum amount of loan that the bank can grant on the basis of this new deposit?

63. The following is a simplified balance sheet for one of the banks in a commercial banking system in a country. (A/L 2018)

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

    (a) What is the required reserve ratio? (2 marks)
    (b) 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)
    (c) 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)

64. The balance sheet for a commercial bank is given below. (4 marks)(A/L 2017)

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?
(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?

65. Assume that for a hypothetical economy, money supply (M) is Rs. 3600 billion, total bank deposits (D) are Rs. 3200 billion, the statutory reserve ratio is 10% and the banks do not hold excess reserves. (4 marks)(A/L 2016)
    (a) What is the value of money multiplier for this economy? (2 marks)
    (b) What should the Central Bank do to decrease money supply by Rs. 100 million in this economy? (02 marks)

66. 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. (4 marks)(A/L 2012)
    (a) Prepare a balance sheet for this bank.
    (b) If the bank maintains a reserve requirement of 12%, what is the largest loan it can make?

67. 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. (4 marks) (A/L 2013)
    (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?

Financial system

68. What are the major categories of financial institutions that make up the Sri Lanka's financial system? (4 marks) (A/L 2013)

Central Bank of Sri Lanka

69. What are the objectives of central Bank of Sri Lanka? Explain how these objectives are achieved. (5 marks) (A/L 2014)

70. State four core functions of the Central Bank of Sri Lanka. (4 marks)(A/L 2020)

71. 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 2015)

72. How does the Central Bank of Sri Lanka operates the Standing Rate Corridor (SRC) to control the interbank call money market interest rates? (4 marks)(A/L 2016)

73. Explain the role of the standing rate corridor in maintaining the stability of financial system in Sri Lanka. (4 marks)(A/L 2019)

Price levels

74. A decline in price level (A/L 2014)
    1) Has no impact on value of money
    2) Increases the value of money
    3) Has no impact on value of money in the long run
    4) Has no impact on value of money in the short run
    5) Reduces the value of money

75. 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? (A/L 2016)

	Nominal GDP	Real GDP
1)	Increased	Increased
2)	Unchanged	Unchanged
3)	Decreased	Decreased
4)	Increased	Unchanged
5)	Decreased	Increased

76. 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 (A/L 2014)
    1) A decrease in general price level and an increase in unemployment.
    2) An increase in general price level and a decrease in output.
    3) A decrease in general price level and an increase in output.
    4) An increase in general price level in a rate higher than the increase in output.
    5) An increase in general price level and a decrease in unemployment.

77. 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? (A/L 2017)
    1) General Price level fell by 4%.
    2) General Price level fell by 8%.
    3) General Price level increased by 4%.
    4) General Price level increased by 8%.
    5) General Price level increased by 10%.

78. 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? (A/L 2014)
    1) -1.2% 2) 1.05% 3) 6.25% 4) 7.05% 5) 7.5%

79. 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? (A/L 2015)
    1) The money supply decreases by 2%
    2) The money supply increased by 2%
    3) Real GNP increased
    4) Real GNP fell
    5) Velocity of circulation of money increased

Price indices

80. What is the base year of the National Consumer Price Index in Sri Lanka? (A/L 2018)
    1) 1951
    2) 2006/07
    3) 2010
    4) 2012/2013
    5) 2014

81. What are the measures currently used in Sri Lanka to indicate the changes in general price level? (3 marks)(A/L 2018)

82. 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? (4 marks)(A/L 2016)

83. What is the GDP deflator? What are the major differences between GDP deflator and the Colombo Consumers Price Index. (4 marks)(A?L 2019)

Concepts related to inflation

84. Which of the following groups would actually benefit from an occurrence of unexpectedly high inflationary price increase? (A/L 2015)
    1) Retired workers
    2) Lenders
    3) Wage earners
    4) Elderly people who have saved money during their working years
    5) Borrowers

85. Distinguish between headline inflation and core inflation. (4 mark)(A/L 2017)

86. What are the adverse effects of inflation? (4 marks)(A/L 2018)(A/L 2020)

Demand – pull inflation

87. When an economy is at full employment, which of the following will most likely create demand pull inflation? (A/L 2019)
    1) An increase in the policy interest rates
    2) An increase in personal income taxes
    3) A decrease in the real rate of interest
    4) A decrease in government spending
    5) A decrease in the money supply

88. 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/L 2016)
    1) A fall in interest rates
    2) A rise in labour productivity
    3) An appreciation of the exchange rate
    4) A rise in marginal propensity to import
    5) An increase in the rates of personal income tax

89. When an economy is at full employment, which of the following will most likely to generate demand pull inflation? (A/L 2015)
    1) A decrease in the budget deficit
    2) A decrease in net exports
    3) A decrease in trade union power
    4) A decrease in the real rate of interest
    5) A decrease in the money supply

90. According to the Quantity Theory of Money, a 10% increase in the nominal money supply will lead to (A/L 2016)
    1) A 10% increase in the real money supply.
    2) An increase in real output of 10%.
    3) A 10% decrease in the interest rate.
    4) 10% increase in the general price level.
    5) An offsetting decrease in the velocity of circulation of money.

91. According to Keynesian theory, in which circumstances would there always be an increase in the demand for money? (A/L 2013)

	Real Income	Price Level	Interest Rates
1)	Increase	Decrease	Increase
2)	Constant	Constant	Increase
3)	Increase	Increase	Decrease
4)	Constant	Decrease	Decrease
5)	Decrease	Constant	increase

92. The following table gives index numbers for a measure of an economy's nominal value of Gross Domestic Product for the period 2008 – 2012 (A/L 2013)

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

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

1) Aggregate demand
2) Real output
3) The rate of inflation
4) The government budget deficit
5) Deficit in the trade balance

93. Present a brief exposition on "the quantity theory of money". Identify the assumptions associated with it. (4 marks)(A/L 2013/2020)

94. What is the difference between the Quantity Theory of Money and the Equation of Exchange? (4 marks)(A/L 2016)

95. 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)(A/L 2017)

Cost – push inflation

96. Which of the following would generate a cost- push inflation? (A/L 2018)

1) An increase in the price of labour
2) A decrease in the price of electricity
3) An increase in household consumption
4) A decrease in government purchases
5) An increase in the money supply

97. What will be the probable effects of an increase in the value added Tax (VAT) on demand-pull inflation and cost-push inflation? (A/L 2017)

	Demand-pull inflation	Cost-push inflation
1)	Decrease	Increase

2)	Increase	Decrease
3)	Increase	Increase
4)	Decrease	Decrease
5)	Increase	Unaffected

98. How would you distinguish between demand-pull inflation and cost-push inflation? Explain your answer using necessary diagrams. (4 marks)(A/L 2015)