

**Indian Institute of Technology  
Department of Economics  
HS 101: Macro Economics Endsem**

**Max. Marks: 35 Marks**

**Time: 2 p.m – 5 p.m**

**Name:**

**Date : 19<sup>th</sup> Apr 2023**

**Roll #**

**Department:**

**VERSION A**

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- Put the correct option against the question number in the table provided on **Page No. 7** (last page). Do not write answers on the main question paper.
  - For every **wrong** answer, **0.25 marks will be deducted** for MCQ
  - **Section A:** Answer All MCQs. (40 x 0.5 = 20 marks)
  - **Section B :** Answer any 6 questions. Each question carries 1.5 marks (6 x 1.5 = 9 marks)
  - **Section C :** Answer any 6 questions. Each question carries 1 mark (6 x 1 = 6 marks)
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**Section A**

1. An upward shift of the saving schedule suggests

- A. nothing with respect to changes in the APC and APS; only that the MPS has changed.
- B. that the APC and APS have both decreased at each GDP level.
- C. that the APC and APS have both increased at each GDP level.
- D. that the APC has decreased and the APS has increased at each GDP level**

2. A mutual fund

- A. is a financial market where small firms mutually agree to sell stocks and bonds to raise funds.
- B. is funds set aside by local governments to lend to small firms who want to invest in projects that are mutually beneficial to the firm and community.
- C. sells stocks and bonds on behalf of small and less known firms who would otherwise have to pay high interest to obtain credit.
- D. is an institution that sells shares to the public and uses the proceeds to buy a selection of various types of stocks, bonds, or both stocks and bonds.**

3. In a closed economy, what does  $(T - G)$  represent?

- A. national saving
- B. investment
- C. private saving
- D. public saving**

4. The aggregate demand curve is

- A. vertical under conditions of full employment.
- B. horizontal when there is considerable unemployment in the economy.
- C. downsloping because of the interest-rate, real-balances, and foreign purchases effects.**
- D. downsloping because production costs decrease as real output rises.

5. The sale of stocks

- A. and bonds to raise money is called debt finance.
- B. and bonds to raise money is called equity finance.
- C. to raise money is called debt finance, while the sale of bonds to raise funds is called equity finance.
- D. to raise money is called equity finance, while the sale of bonds to raise funds is called debt finance.**

- 6.If the tax revenue of the federal government exceeds spending, then the government necessarily
- A. runs a budget deficit.
  - B. runs a budget surplus.**
  - C. runs a national debt.
  - D. will increase taxes.
- 7.The source of the supply of loanable funds
- A. is saving and the source of demand for loanable funds is investment.**
  - B. is investment and the source of demand for loanable funds is saving.
  - C. and the demand for loanable funds is saving.
  - D. and the demand for loanable funds is investment.
- 8.If Proctor and Gamble sells a bond it is
- A. borrowing directly from the public.**
  - B. borrowing indirectly from the public.
  - C. lending directly to the public.
  - D. lending indirectly to the public.
- 9.Crowding out occurs when investment declines because
- A. a budget deficit makes interest rates rise.**
  - B. a budget deficit makes interest rates fall.
  - C. a budget surplus makes interest rates rise.
  - D. a budget surplus makes interest rates fall.
- 10.The slope of the demand for loanable funds curve represents the
- A. positive relation between the real interest rate and investment.
  - B. negative relation between the real interest rate and investment.**
  - C. positive relation between the real interest rate and saving.
  - D. negative relation between the real interest rate and saving.
11. In a fractional reserve banking system, an increase in reserve requirements
- A. increases both the money multiplier and the money supply.
  - B. decreases both the money multiplier and the money supply.**
  - C. increases the money multiplier, but decreases the money supply.
  - D. decreases the money multiplier, but increases the money supply.
- 12.Which of the following is a function of money?
- A. a unit of account
  - B. a store of value
  - C. medium of exchange
  - D. All of the above is correct.**
- 13.Monetary policy affects employment
- A. only in the long run.
  - B. only in the short run.**
  - C. in both the long run and the short run.
  - D. in neither the long run nor the short run.
14. If the supply for loanable funds shifts left, the equilibrium interest rate
- A. and quantity of loanable funds rise.
  - B. and quantity of loanable funds fall.
  - C. rises and the quantity of loanable funds falls.**
  - D. falls and the quantity of loanable funds rises.

15. Liquidity refers to

- A. the ease with which an asset is converted to the medium of exchange.**
- B. a measurement of the intrinsic value of commodity money.
- C. the suitability of an asset to serve as a store of value.
- D. how many times a dollar circulates in a given year.

16. Suppose that the reserve ratio is 10 percent and that a bank has \$2,000 in deposits. Its reserves are

- A. \$20.
- B. \$200.**
- C. \$1,880.
- D. \$1,800.

17. When the Fed conducts open-market purchases,

- A. it buys Treasury securities, which increases the money supply.**
- B. it buys Treasury securities, which decreases the money supply.
- C. it borrows money from member banks, which increases the money supply.
- D. it lends money to member banks, which decreases the money supply.

18. During the Great Depression in the early 1930s,

- A. bank runs closed many banks.**
- B. the money supply rose sharply.
- C. the Fed decreased reserve requirements.
- D. both a and b are correct.

19. If the reserve ratio is 10 percent, the money multiplier is

- A. 100.
- B. 10.**
- C. 9/10.
- D. 1/10.

20. Which of the following is *correct*?

- A.  $APC + APS = 1$ .**
- B.  $APC + MPS = 1$ .
- C.  $APS + MPC = 1$ .
- D.  $APS + MPS = 1$ .

21. Assume the economy's consumption and saving schedules simultaneously shift downward. This must be the result of

- A. an increase in disposable income.
- B. an increase in household wealth.
- C. an increase in personal taxes.**
- D. the expectation of a recession.

22. A high rate of inflation is likely to cause a

- A. high nominal interest rate.**
- B. low nominal interest rate.
- C. low rate of growth of nominal GDP.
- D. decrease in nominal wages.

23. The multiplier is

- A.  $1/MPC$ .
- B.  $1/(1 + MPC)$ .
- C.  $1/MPS$ .**
- D.  $1/(1 - MPS)$ .

24. The MPC for an economy is  
**A. the slope of the consumption schedule or line.**  
 B. the slope of the savings schedule or line.  
 C. 1 divided by the slope of the consumption schedule or line.  
 D. 1 divided by the slope of the savings schedule or line.
25. Exports have the same effect on the current size of GDP as  
 A. imports.  
**B. investment.**  
 C. taxes.  
 D. saving.
26. The real-balances effect indicates that  
 A. an increase in the price level will increase the demand for money, increase interest rates, and reduce consumption and investment spending.  
 B. a lower price level will decrease the real value of many financial assets and therefore reduce spending.  
 C. a higher price level will increase the real value of many financial assets and therefore increase spending.  
**D. a higher price level will decrease the real value of many financial assets and therefore reduce spending.**
27. The economy's long-run aggregate supply curve  
 A. slopes upward and to the right.  
**B. is vertical.**  
 C. is horizontal.  
 D. slopes downward and to the right.
28. The crowding-out effect suggests that  
 A. tax increases are paid primarily out of saving and therefore are not an effective fiscal device.  
**B. government borrowing to finance the public debt increases the real interest rate and reduces private investment.**  
 C. it is very difficult to have excessive aggregate spending in a capitalist economy.  
 D. consumer and investment spending always vary inversely.
29. On a diagram where the interest rate and the quantity of money demanded are shown on the vertical and horizontal axes, respectively, the transactions demand for money can be represented by  
 A. a line parallel to the horizontal axis.  
**B. a vertical line.**  
 C. a downsloping line or curve from left to right.  
 D. an upsloping line or curve from left to right.
30. The equilibrium rate of interest in the market for money is determined by the intersection of the  
 A. supply-of-money curve and the asset-demand-for-money curve.  
 B. supply-of-money curve and the transactions-demand-for-money curve.  
**C. supply-of-money curve and the total-demand-for-money curve.**  
 D. investment-demand curve and the total-demand-for-money curve.
31. Open-market operations include  
 A. changes in the reserve ratio.  
**B. repos and reverse repos.**  
 C. paying interest on excess reserves held at Federal Reserve Banks.  
 D. changes in the discount rate.

32. Investors diversify portfolios
- A. because diversified portfolios pay the highest rates of return.
  - B. because diversified portfolios are guaranteed not to lose money.
  - C. to reduce the risk of losing their investment.**
  - D. to guarantee minimum returns on their investment.
33. If aggregate demand decreases, and, as a result, real output and employment decline but the price level remains unchanged, it is most likely that
- A. the money supply has declined.
  - B. the price level is inflexible downward and a recession has occurred.**
  - C. cost-push inflation has occurred.
  - D. productivity has declined.
34. Another name for diversifiable risk is
- A. systemic risk.
  - B. inflation risk.
  - C. idiosyncratic risk.**
  - D. cyclical risk.
35. Portfolio diversification
- A. reduces the likelihood that the entire amount invested will be lost.**
  - B. eliminates all risk of loss.
  - C. ensures that investors will receive a positive rate of return.
  - D. provides the maximum possible rate of return from an investment portfolio.
36. Value added by a firm is the market value of the firm's output minus the
- A. total wages paid to its employees.
  - B. value of inputs bought from other firms.**
  - C. profits that the firm's owners earn.
  - D. total costs of all inputs used.
37. Business inventories increase when firms produce
- A. more than they sell, and the inventory increase is added to GDP.**
  - B. less than they sell, and the inventory increase is added to GDP.
  - C. more than they sell, and the inventory increase is subtracted from GDP.
  - D. less than they sell, and the inventory increase is subtracted from GDP.
38. Disinvestment occurs when
- A. businesses sell machinery and equipment to one another.
  - B. the prices of investment goods rise faster than the prices of consumer goods.
  - C. businesses have larger inventories at the end of the year than they had at the start.
  - D. the consumption of private fixed capital exceeds gross private domestic investment**
39. Recurring upswings and downswings in an economy's real GDP over time are called
- A. recessions.
  - B. business cycles.**
  - C. Peak
  - D. total product oscillations.
40. An unexpected increase in total spending will cause an increase in GDP
- A. if prices are sticky.**
  - B. if prices are fully flexible.
  - C. regardless of whether prices are sticky or fully flexible.
  - D. only if prices are stuck in the long term.