Q8. Would the central bank need to intervene in a managed floating system? Explain why.
Ans: Managed floating system is a combination of two systems – fixed and floating exchange rate systems. It calls for the government or central bank to intervene when the need for the same is needed. The government or the central bank helps in moderating the exchange rate movements by purchasing and selling of foreign currency. Thus, to avoid dirty floating, the government exercises its power to intervene, whenever the need arises.

Q9. Are the concepts of demand for domestic goods and domestic demand for goods the same?
Ans: In a closed economy, the demand for domestic goods and domestic demand for goods are similar terms. However, in an open economy, these two terms have different meanings. Demand for domestic goods includes both domestic and foreign demand for domestic goods. Whereas domestic demand for goods refers to the domestic market demand of a country, that is either produced domestically or abroad (foreign countries).

Q10. What is the marginal propensity to import when $M = 60 + 0.06Y$? What is the relationship between the marginal propensity to import and the aggregate demand function?

Ans: Marginal propensity to import is the fraction of additional income spent on imports.
It is given that M = 60 + 0.06Y
Therefore, marginal propensity to import (m) = 0.06. It reflects induced imports; that is the part of the total imports, which is a function of income.

Since the marginal propensity to import negatively affects the aggregate demand function, when income increases the aggregate demand decreases. This is because the additional income is spent on foreign goods and not on domestic products.

*********** END **********