S.Y.B.COM. (SEM-III)

ECONOMICS

Fill in the Blanks.

Module 1

1. The continuous flow of money and goods and services between firms and households is called the Circular Flow.
2. Saving constitute a leakage in the circular flow and investment constitutes an injection into the circular flow.
3. In closed economy equilibrium occurs investment is equal to saving.
4. Productivity shocks are associated with innovations.
5. The period of high income and employment has been called the period of prosperity.
6. The alternating periods of expansion and contraction in economic activities are known as trade cycles.
7. According to Keynes, the level of employment is determined by the level of effective demand.
8. In order to reach full employment equilibrium, there has to be an increase in aggregate demand.
9. AD = C + I + G + NX represents aggregate demand in an open economy.
10. The term “Keynesian Cross” was coined by Paul Samuelson.
11. Marginal Propensity to Consume (MPC) is always less than one and cannot be zero.
12. $k = \Delta Y / \Delta I$ measures multiplier coefficient.
13. Imports result in a decline in the value of multiplier.
14. The ratio between the net change in consumption expenditure and the induced investment is known as the acceleration co-efficient.
15. The value of the acceleration co-efficient depends upon the capital- output ratio.
16. The combined effect of multiplier and accelerator is known as Super Multiplier.

Module 2

1. Currency money is termed as high powered money because it is a legal tender.
2. Higher the CRR (Cash Reserve Ratio) lower is the money supply.
3. The money multiplier is measured as $mm = 1 + k / r + k$.
4. The Radcliff Committee suggested that the money supply should also include the fund lent by financial institutions.
5. Transaction demand for money is not influenced by interest rate.
6. Keynes describes the desire for money by the people as liquidity preference.
7. Speculative demand for money is interest elastic.
8. The liquidity preference theory was given by J. M. Keynes.
9. The desire of people to hold assets in the form of liquid cash is known as liquidity preference.
10. Keynes defines interest as the reward for parting with liquidity.
11. The demand for money varies inversely with the rates of interest.
12. According to Keynes, interest rate is determined by the demand for and supply of money.
13. At a very low rate of interest the liquidity preference curve becomes perfectly elastic.

Module 3

1. Current inflation rate is referred to headline inflation.
2. Deficit financing refers to the printing of excess currency notes, by the Central Bank of the country in order to provide for public expenditure.
3. Government's budgetary policy during inflation should aim at decreasing expenditure.
4. A mechanism of wages, prices and contracts that are partially or wholly compensated for changes in the general price level is termed as indexation.
5. When there is rise in the price due to excess of demand, it is termed as demand- pull inflation.

Module 4

1. SLR securities do not include securities issued by private corporations.
2. The value of credit multiplier is 1/CRR.
3. Spread is defined as the difference between interest income and interest expenses.
4. The cash deposits kept in the bank by the customers are termed as primary deposits.
5. Every loan creates deposits.
6. The central bank of a country formulates and operates the monetary policy.
7. The main objective of the monetary policy is economic growth with price stability.
8. Quantitative/ general measures of credit control influence the volume of the credit.
9. The bank rate policy was first adopted in 1839 by the Bank of England.
10. The national budget determines the allocation of funds for public expenditure.
11. The deliberate changes in taxation and expenditure policy brought about by the government is termed as the discretionary fiscal policy.
12. Interest payments are non-development revenue expenditure.
13. Public spending during depression is known as compensatory expenditure.
14. Taxation must be progressive to reduce the income and wealth inequalities.
15. IS curve shows the goods market equilibrium.
16. In the liquidity trap case LM curve is horizontal.
17. The point of intersection between IS and LM curve determine rate of interest and the level of national income.
18. The LM curve slopes upward as the rate of interest varies directly with the income.
19. The shifts in the LM curve happens with the changes in the money supply and liquidity preference.
20. The steepness of the IS curve depends on the elasticity of investment demand and the size of the multiplier.
21. An increase in the Government expenditure leads to rise in the rate of interest and the level of the national income.
22. When the interest rate falls the investment will increase.
23. When the money supply reduces interest rate rises.
24. Fiscal policy brings out the crowding out effect.

True / False with Reason

Module 1

1. Under circular flow in a closed economy, there is an inflow of foreign capital.
   False. Closed economy does not indulge into international trade so there is no inflow or outflow of capital in such economy.
2. National income is measured in monetary terms.
   True. It includes only those goods and services which are exchanged for money.
3. A period of boom is characterised by unemployment.
   False. At boom period the economy is at full swing with maximum level of employment.
4. Keynesian theory is not applicable to under-developed countries.
   True. This theory deals with the problem of cyclical unemployment whereas under-developed nations face the problem of chronic and disguised unemployment.
5. Monetary policy is more effective than fiscal policy during depression.
   False. In order to maintain aggregate demand during depression fiscal policy is used by reducing taxes and increasing public expenditure.
6. The aggregate demand curve originates from the Y-axis.
   True. The aggregate demand curve intercepts the Y-axis above origin indicating positive consumption level even if income level is zero.
7. Keynes redefined the original concept of multiplier.
   True. In 1930's F. A. Kahn developed an employment multiplier concept which was redefined by Keynes with reference to the increase in total income due to increase in original investment and income.
8. Constant MPC is an important assumption of the theory of multiplier.
   True. According to Keynes MPC diminishes with increase in the income, however, calculations will become more complicated so it is assumed constant.
9. The principle of acceleration is based on the fact that the demand for the capital goods is derived demand.
   True. The demand for capital goods is derived from the demand for consumer goods which are produced with the help of capital goods.
10. When the economy is moving downwards, the gross investment can fall only up to zero.
    True. When economy is moving downwards the demand for consumer goods reduces in excess of depreciation so excess idle capacity is accumulated and hence gross investment falls only up to zero.
11. The interaction between the multiplier and accelerator can give rise to cyclical movements in the level of economic activity.
    True. The pattern of fluctuations in the economic activities depend upon the values of multiplier and accelerator.

Module 2

12. Higher the deposit currency ratio, higher is credit creation by banks.
    False. Higher the currency demand by people, less currency will be available with banks and thus low will be the creation of credit.
13. Time interval between successive income receipts influences velocity of money.
    True. If income is received in quick intervals less money is required to be held therefore money turns over faster and vice- versa.
14. Velocity of circulation of money has no impact on the quantity of money demanded.
    False. A changes in velocity of circulation of money changes the quantity demanded of money.
15. Demand for money held under the speculative motive is referred to as the demand for "idle cash balances".
    True. When market interest rate is low it is expected to increase in the near future and thus bringing down the securities prices, such expectations induces people to hold more cash.
16. The liquidity preference curve slope upward from left to right.
    False. The liquidity preference curve slope downward from left to right.

Module 3

17. Inflation is a state when the value of money is rising.
    False. During inflation the value of money is falling.
18. GNP Deflator = Real GNP / Nominal GNP
    False. GNP Deflator = Nominal GNP / Real GNP
19. There is trade-off between wage inflation and unemployment.
    True. To reduce the rate of inflation policy makers must temporarily raise unemployment and to reduce unemployment they must accept higher inflation.
20. In the long run Phillips curve is horizontal.
    False. In the long run Phillips curve becomes vertical as unemployment remains in the economy at natural level (NAIRU) only inflation moves upward or downward.
21. During inflation real income rises.
    False. During inflation purchasing power of money or real income falls.
22. Fixed income groups suffer during inflation.
    True. Such groups fixed income brings less and less goods and services.
23. Bank rate and reserve ratios are lowered by the central bank to control price rise.
    False. Bank rate and reserve ratios are increased by central bank to control price rise or inflation.

Module 4

24. The assets of the bank generate income for the bank.
    True. The fund mobilised through various sources by banks is invested into various assets like SLR securities, loans and advances and so on from which bank earns income.
25. Mutual fund investment by banks are part of their SLR investment.
    False. SLR investment is done only in approved government securities, gold and cash by banks.
26. Recognition lag is a form of outside lag.
    False. It is a form of inside lag.

27. During recession central bank purchases government securities under the OMO.
    True. In order to stimulate the economic growth during recession, central bank inject money into the banking system by purchasing government securities under OMO.
28. Monetary policy is more effective during recession.
    False. Fiscal policy is more effective during recession whereas monetary policy is effective during inflation.
29. Fiscal policy is an important instrument of state intervention to maintain economic stability.
    True. Fiscal policy is used to bring about creation of infrastructure, improve distribution of income and wealth, develop priority sector apart from providing traditional facilities to the society.
30. In case of indirect taxes, the impact and incidence may be on different persons.
    True. The person upon whom the tax is imposed bears the impact, while the incidence is upon that person who ultimately pays it by purchasing goods and services in which prices these taxes are included.
31. Fiscal policy decisions are affected by the multiplier coefficient.
    True. The effects of fiscal policy measures are transmitted to the economy through various multipliers like investment multiplier, tax multiplier.
32. The LM curve shows different combinations of income interest rates at which the goods market is in equilibrium.
    False. It shows different combinations of income interest rates at which the money market is in equilibrium.
33. An expansionary fiscal policy brings out crowding out effect.
    True. Expansionary fiscal policy results into increased interest rate and thereby reducing spending and aggregate demand and hence crowding out occur.