

COURSE TITLE: MONETARY THEORY AND POLICY

WEEK 15- QUIZ QUESTIONS

INSTRUCTIONS: ANSWER ALL QUESTIONS

TIME: 1 hour

1. _____ consist in the possession of assets like gold, foreign exchange and in the ability to borrow internationally.
 - A. Reserve requirements
 - B. Balance of payment surplus
 - C. international liquidity
 - D. Unconditional liquidity

2. The relationship between real GNP and changes in unemployment is established by _____.
 - A. Philips Curve
 - B. Taylors Curve
 - C. Okun's law
 - D. None of the above

3. Monetary policy is defined as discretionary action undertaken by the authorities designed to influence _____.
 - A. the supply of money,
 - B. rate of interest
 - C. the availability of money
 - D. All the above

4. To Avoid inflationary and recessionary tendencies, Friedman suggests that money supply should be allowed to grow at _____ % per year
 - A. 1-2%
 - B. 2-4%
 - C. 3-4%
 - D. 5-6%

5. The Central bank may not directly control prices and output, so it selects employment and price stability as a target.
 - A. TRUE

B. FALSE

6. Expansionary and contractionary monetary policy involve

- A. Raising short term interest rate and lowering short-term interest rates*
- B. raising long term interest rates and lowering short term interest rates*
- C. Lowering Long term interest rates and raising long term interest rates*
- D. Lowering short term interest rates and raising short term interest rates*

7. Money supply and interest rates are complementary targets of money supply.

A. TRUE

B. FALSE

8. Which of the following are the quantitative instruments of monetary policy

- A. Rationing of credit, bank rate, variable interest rate, repo rate.*
- B. Bank rate, open market operations, repo rate, liquidity adjustment facility.*
- C. Open market operations, rationing of credit, margin requirement, prudential guidelines.*
- D. Rationing of credit, bank rate, moral suasion, repo rate.*

9. The central bank can pursue commercial banks to adopt certain policies such as credit expansion or restriction or increase savings mobilization. In doing this the CBK is exercising_____.

- A. Liquidity adjustment*
- B. Credit control*
- C. Open Market Operations*
- D. Moral suasion*

10. An expansionary Monetary policy is normally undertaken by the central bank of a country or other regulatory authority and it will involve_____

- A. contraction of open market operations, decrease in interest rates, increase in reserve requirements*
- B. Decrease in interest rates, reduction in reserve requirements, expansion of open market operations*
- C. reduction in reserve requirements, increase in interest rates, expansion of open market operations*
- D. None of the above.*

11. In undeveloped markets open market operations are effective in controlling inflationary pressures because the government securities market is well developed.

A. TRUE

B. FALSE

12. _____ is more effective as an instrument of monetary policy in LDCs

A. Open market operations

B. Required Reserve ratio

C. Bank rate

D. All the above

13. High Liquidity in commercial banks has led to the success of monetary policy in LDCs.

A. TRUE

B. FALSE

14. The Purchasing Power of money over domestic goods and services is known as _____.

A. internal value

B. external value

C. BOTH

D. none of the above

15. According to Fisher, the velocity of circulation of money V is highly unstable and would change with changes in the stock of money or money income.

A. TRUE

B. FALSE

16. If a central bank increases the discount rate, the lending of banks will _____.

A. Increase

B. Decrease

C. Stay the same

D. The banks are not affected by the discount rate.

17. Other things remaining unchanged, as the quantity of money in circulation increases, the price level also increases in direct proportion and the value of money decreases and vice versa. This is

according to _____

- A. Keynes
- B. Taylor
- C. Cambridge
- D. Fisher

18 Contractionary monetary policy is when:

- A. the price level is increased which leads to an increase in the money supply.
- B. the rate of growth of the money supply is reduced leading to a decrease in the price level.
- C. the rate of growth of the money supply is increased leading to an increase in the price level.
- D. the price level is decreased which leads to a decrease in the money supply.

19. If businesses and consumers become pessimistic, the Central Bank can attempt to reduce the impact on the price level and real GDP by:

- A. increasing the money supply, which raises interest rates.
- B. increasing the money supply, which lowers interest rates.
- C. decreasing the money supply, which raises interest rates.
- D. decreasing the money supply, which lowers interest rates

20. An expansionary monetary policy has been implemented. Which one of the following combinations of macroeconomic changes is most likely to happen?

- A. A fall in the price of imports and more demand for bank loans.
- B. A rise in consumption and an increase in house prices.
- C. An increase in employment and a rise in government borrowing.
- D. An increase in retail sales and a rise in the savings ratio.

21. In the short run, an expansionary monetary policy raises the interest rate.

- A. True
- B. False

22. The _____ of money refers to the purchasing power of money over domestic goods and services. The _____ of money refers to the purchasing power of money over foreign goods and service.
- A. external value, internal value*
 - B. real value, nominal value*
 - C. internal value, external value*
 - D. nominal, real value*
23. Fisher's theory is based on the assumption that P is passive factor in the equation of exchange which is affected by the other factors.
- A. TRUE*
 - B. FALSE*
24. Which of the following contains the correct criteria for selecting monetary policy targets
- A. Accuracy, reliability predictability*
 - B. Predictability, measurability, controllability*
 - C. Reliability, conformity, elasticity*
 - D. Measurability, elasticity, accuracy*
25. Intermediate targets sit in between the direct effects of monetary policy and the economic outcomes that the policymaker ultimately wishes to achieve.
- A. TRUE*
 - B. FALSE*
26. Bank rate is also not so effective in such countries due to:
- A. The lack of bill of discount*
 - B. The narrow size of the bill market*
 - C. A large non-monetized sector where barter transactions take place.*
 - D. All the above*

27. _____ occur when getting the policy activated, and _____ refers to the subsequent impact of the policy.

- A. Outside lag, inside lag
- B. Implementation lag, recognition lag
- C. Inside lag, outside lag
- D. Recognition lag, implementation lag

28. The central bank can choose to pursue interest rates and monetary aggregates targets at the same time.

- A. *TRUE*
- B. *FALSE*

29. The sustainability of the public debt is a function of _____.

- A. The size of the stock of debt-is a threat to credibility and effectiveness of monetary policy.
- B. Its average maturity-high debt reduces the ratio of government financing needs.
- C. The relationship between the average interest rate and the rate of growth of GNP-the stock of debt will grow as GNP ratio grows.
- D. All the above.

30. The use of variable reserve ratio as an instrument of monetary policy is more effective than open market operations and bank rate policy in LDCs.

- A. *TRUE*
- B. *FALSE*