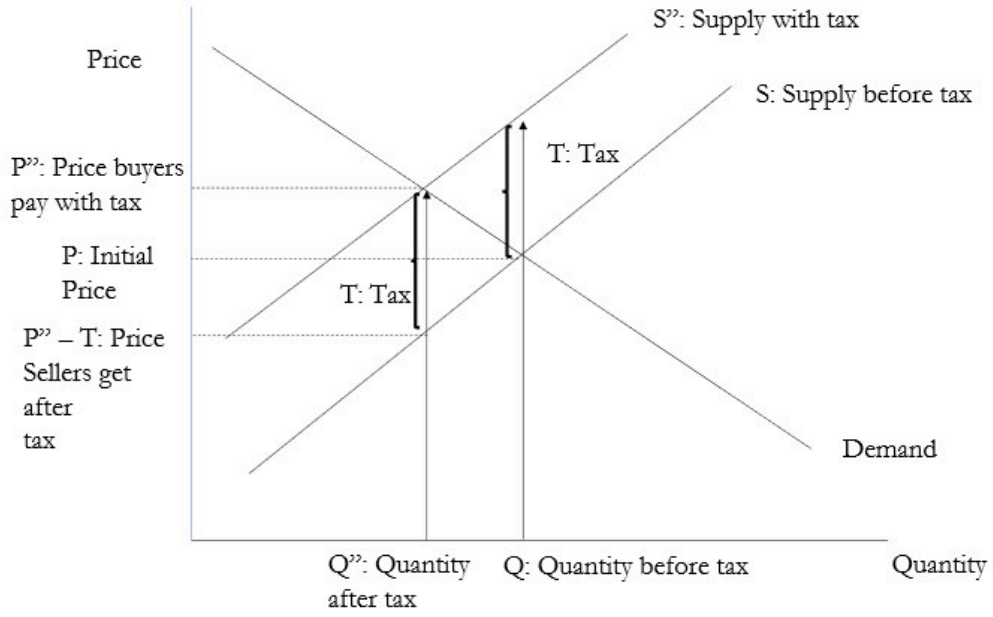
1 Suppose a firm finds that at the current level of output, marginal revenue (MR) is $20 while marginal cost (MC) is $15. We can conclude that:

Select one alternative:

- Since MR > MC, the firm should increase production to maximize profit. ✔
- The firm should continue producing this amount of output since the firm always wants to operate at an output level such that MR > MC.
- Since MR > MC, the firm is making losses and should stop producing.
- Since MR > MC, the firm should cut back on production to maximize profit.

Maximum marks: 1

2 This diagram represents the market for widgets before and after a tax of $T per unit was imposed on the suppliers. The original supply curve is S. The supply curve after the tax is S". Suppose that the buyers did not reduce their consumption at all following the imposition of the tax. That is, suppose that the demand curve was a vertical straight line through the quantity Q. Then the price faced by consumers after the imposition of the tax would be:



Select one alternative:

- P + T. ✔
- P".
- P" -T.
- P.

Maximum marks: 1

3 Suppose Hannie has $1000 and is considering three options. (i) Buy a new iPhone for $1000; (ii) put the money into an interest-bearing bank account earning 5%; (iii) lend the money to Arya who promises to pay Hannie $1100 ($1000 plus $100 in interest) after one year. Suppose Hannie decides to buy the iPhone. What is her opportunity cost?

Select one alternative:

- The opportunity cost is $50; the money Hannie would have earned by putting the money in a bank account.
- We cannot calculate an opportunity cost since it can be done only when there are two alternatives, not more than two.
- The opportunity cost is $100 of interest that Arya would have paid in interest. ✔
- The opportunity cost is $150; the interest Arya would have paid plus the interest earned by putting the money into a bank account.

Maximum marks: 1

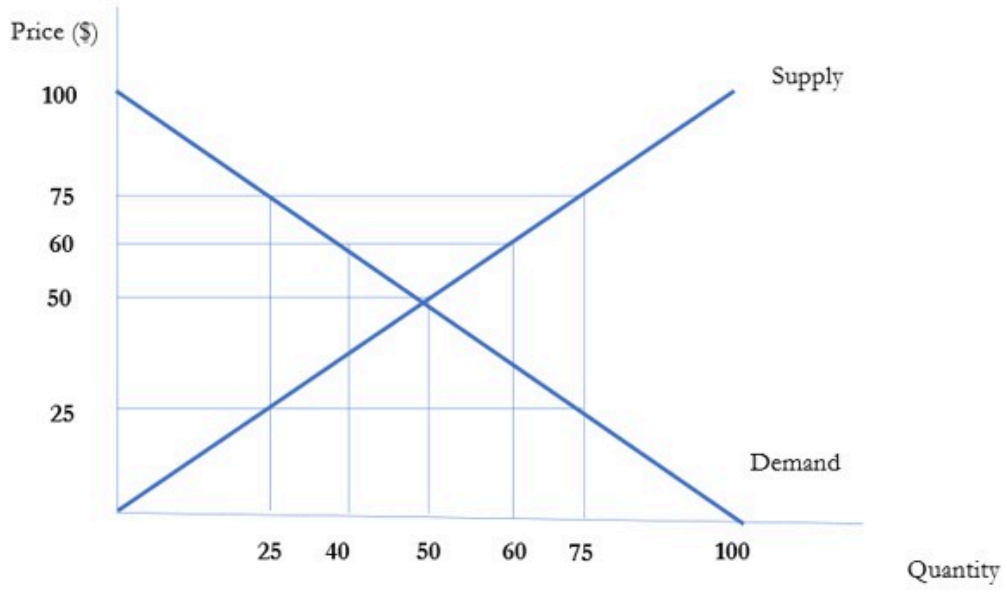
4 Which of the following statements is **CORRECT**?

Select one alternative:

- Market power is highest in monopolistic competition, followed by oligopoly, followed by monopoly, with firms in perfectly competitive market having zero market power.
- Market power is highest in oligopoly, followed by monopoly, followed by monopolistic competition with firms in perfectly competitive market having zero market power.
- Market power is highest in perfect competition, followed by monopoly, followed by oligopoly, with firms in monopolistically competitive market having zero market power.
- Market power is highest in monopoly, followed by oligopoly, followed by monopolistic competition with firms in perfectly competitive market having zero market power. ✔

Maximum marks: 1

5 Consider the following figure. Suppose the government imposed a **price ceiling** of $60. You can conclude that:



Select one alternative:

- The price ceiling will not be binding since it is imposed below the equilibrium price of $50.
- There will be a surplus (excess supply) of 20 units.
- The price ceiling will not be binding since it is imposed above the equilibrium price o ✔ 0.
- There will be a shortage (excess demand) of 50 units.

Maximum marks: 1

6 Compared to oligopolistic markets, total quantity supplied in markets characterized by monopolistic competition is likely to be _____ while the price is likely to be _____. Compared to perfectly competitive markets, total quantity supplied in markets characterized by monopolistic competition is likely to be _____.

Select one alternative:

- lower; higher; lower.
- higher; lower; higher.
- higher; lower; lower. ✔
- lower; lower; higher.

Maximum marks: 1

7 An externality arises when:

Select one alternative:

- A person or a firm engages in an activity that positively or negatively influences the well-being of another disinterested party, that neither pays nor receives compensation for ✔ it effect.
- A firm sells its product in a foreign market and must deal with the impact of external events affecting currency values.
- There is a surplus or shortage in a market requiring government intervention to resolve this.
- The government intervenes in a market via a price ceiling or price floor that prevents the market from reaching equilibrium.

Maximum marks: 1

8 Suppose a friend says that demand for a product is inelastic since the own price elasticity of demand is (-)2. The friend further states that given that demand is inelastic, a producer facing this demand should increase her price to increase her revenue. Is the friend correct about the elasticity? Is she correct about the appropriate pricing strategy?

Select one alternative:

- No and Yes; because when it comes to own price elasticity of demand only the magnitude matters and not the sign. Hence an elasticity of (-)2 and (+)2 are the same and both indicate elastic demand. But since demand is elastic, the classmate is correct that increasing price will lead to higher revenue.
- Yes and No; because if own price elasticity is less than 1 then demand is price inelastic. But when demand is inelastic increasing price will lead to lower revenue. The producer should lower her price to increase revenue.
- No and No; because when it comes to own price elasticity of demand only the magnitude matters and not the sign. Hence an elasticity of (-)2 and (+)2 are the same and both indicate elastic demand. And since demand is elastic, increasing price will lead to lower revenue. The producer should lower her price to increase revenue. ✔
- Yes and Yes; because if own price elasticity is less than 1 then demand is price inelastic. And since demand is price inelastic raising price will lead to higher revenue.

Maximum marks: 1

9 Consider the information for a firm's costs provided in the table below. For this firm, the average variable cost when producing 5 units of output is:

Output	Total Cost	Total Variable Cost
0	100	0
1	110	10
2	130	30
3	160	60
4	200	100
5	250	150
6	310	210
7	380	280
8	480	380

Select one alternative:

- $100.
- $30. ✔
- $20.
- $150.

Maximum marks: 1

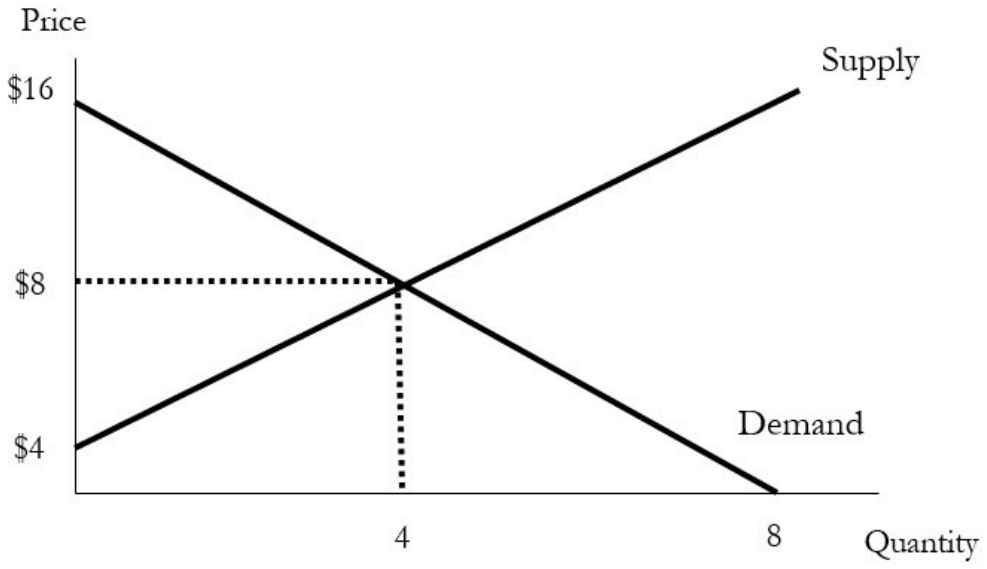
10 Suppose the government is considering raising the minimum wage by 10%. Also suppose that the price elasticity of demand for labour vis-à-vis wages is ¼ (0.25). Given this increase in minimum wage and the information on elasticity, you should expect a ___% loss in jobs.

Select one alternative:

- 5.
- 10.
- 0.
- 2.5. ✔

Maximum marks: 1

11 In the attached diagram, the magnitude of consumer surplus is ____ while the magnitude of producer surplus is _____.



Select one alternative:

- $16; $8. ✔
- $16; $16.
- $8, $16.
- $8; $8

Maximum marks: 1

12 If the cross-price elasticity of demand between two goods X and Y is (-)1.25, then the two goods must be:

Select one alternative:

- Substitutes.
- Luxury goods.
- Normal goods.
- Complements. ✔

Maximum marks: 1

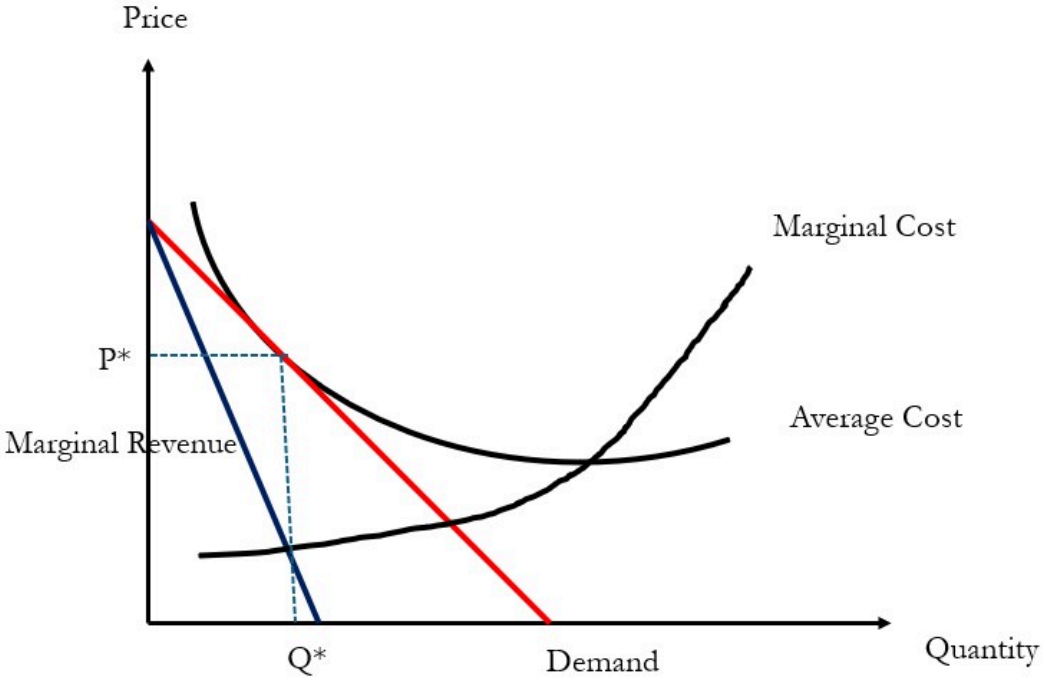
13 Suppose in the market for a particular good, starting from an initial equilibrium, there is a simultaneous decrease in supply and an increase in demand. What can you conclude about the price and quantity at the new equilibrium?

Select one alternative:

- Price is lower but the effect on quantity is ambiguous.
- Price is higher but the effect on quantity is ambiguous. ✔
- Quantity is higher but the effect on price is ambiguous.
- Quantity is lower but the effect on price is ambiguous.

Maximum marks: 1

14 Consider the attached diagram. Which of the following statements is **CORRECT**?



Select one alternative:

- This diagram shows the short-run equilibrium for a firm in a perfectly competitive market.
- This diagram shows the short-run equilibrium for a firm in a monopolistically competitive market.
- This diagram shows the long-run equilibrium for a firm in a perfectly competitive market.
- This diagram shows the long-run equilibrium for a firm in a monopolistically competitive market. ✔

Maximum marks: 1

15 John, Paul, George and Ringo are all fans of the novels of Lee Child. They are all eagerly awaiting the release of his new novel. John is willing to pay $35 to read the novel, Paul is willing to pay $30, George $28 and Ringo $25. When the novel is released, the publisher decides to price it at $24.99 and everyone gets to buy it at that price. How much consumer surplus does George get if he buys the novel for $24.99?

Select one alternative:

- $10.01.
- $3.01. ✔
- $5.01.
- $0.01.

Maximum marks: 1

16 Consider a market consisting of five buyers and five sellers. The following table illustrates the willingness to pay (maximum price buyers are willing to pay for one unit) and willingness to accept (minimum price sellers are willing to accept for each unit) schedules for the buyers and sellers respectively. *Assume that each buyer and seller can buy and sell only one unit at a time.*

Maximum price buyer willing to pay	**Buyer 1**	**Buyer 2**	**Buyer 3**	**Buyer 4**	**Buyer 5**
	$14	$12	$10	$8	$6
Minimum price seller willing to accept	**Seller 1**	**Seller 2**	**Seller 3**	**Seller 4**	**Seller 5**
	$2	$4	$6	$8	$10

Suppose you set this market up as a market where buyers are sellers are allowed to trade with one another in an attempt to find the most profitable trade. Over time you would expect that on average the market price will be around _____ and _____ units will be traded. You would also expect that in general ____ and ____ will not be able to trade in this market.

Select one alternative:

- $4; 4; Buyer 5; Seller 1.
- $8; 4; Buyer 5; Seller 5. ✔
- $4; 8; Buyer 1; Seller 5.
- $8; 8; Buyer 4; Seller 4.

Maximum marks: 1

17 Consider a market with an upward sloping supply curve. The government imposes a tax on the sellers in the first instance. Which of the following statements is **CORRECT**?

Select one alternative:

- The sellers will not be able to pass on any part of the tax to the buyers as long as the demand curve in this market is vertical.
- The sellers will be able to pass on the entire tax to the buyers as long as the demand curve in this market is horizontal.
- The sellers will be able to pass on the entire tax to the buyers as long as the demand curve in this market is vertical. ✔
- The sellers will be able to pass on the entire tax to the buyers as long as the demand curve in this market is downward sloping.

Maximum marks: 1

18 Suppose that university fees are higher this year than last year but more students are enrolled at university this year than last year. Based on this information, we can best conclude that:

Select one alternative:

- The demand curve for a university education is positively sloped so that when price rises so does quantity demanded.
- Despite the increase in price, quantity demanded has increased due to an increase in demand and a rightward shift in the demand curve. ✔
- Despite the increase in price, quantity demanded has increased due to an increase in supply and a rightward shift in the supply curve.
- The law of demand has been invalidated in this instance since quantity demanded is higher when price is higher.

Maximum marks: 1

19 Assume a market characterized by a downward sloping demand and an upward sloping supply. Also assume that the forces of supply and demand operate freely. Which of the following statements is **INCORRECT**?

Select one alternative:

- Shortages put downward pressure on the market price while surpluses exert upward pressure on the market price. ✔
- Prices provide incentives to use scarce resources efficiently.
- Shortages put upward pressure on the market price while surpluses exert downward pressure on the market price.
- When the price of a good rises, producers react by producing more of the good and consumers by purchasing less of the good.

Maximum marks: 1

20 A factory located along a river has been responsible for chromium tainted effluents getting into the river. The factory employs many people from the area, but the pollution is causing health problems among many of them. The city council estimates that it is possible to install filters that will prevent these effluents from entering the river. This abatement cost amounts to approx. $c per unit of output produced by the factory. What would an economic consultant typically suggest that the city does?

Select one alternative:

- The city should consider providing a subsidy of $c per unit of output in order to get the factory to take the negative externality into action, which will push the supply curve back and the left.
- The city should consider imposing a tax of $c per unit of output in order to get the factory to take the negative externality into action, which will push the supply curve back and the left. ✔
- The city should completely ban the production of this good.
- The city should consider imposing a tax of $c per unit of output in order to get the factory to take the negative externality into action, which will push the supply curve out and to the right.

Maximum marks: 1

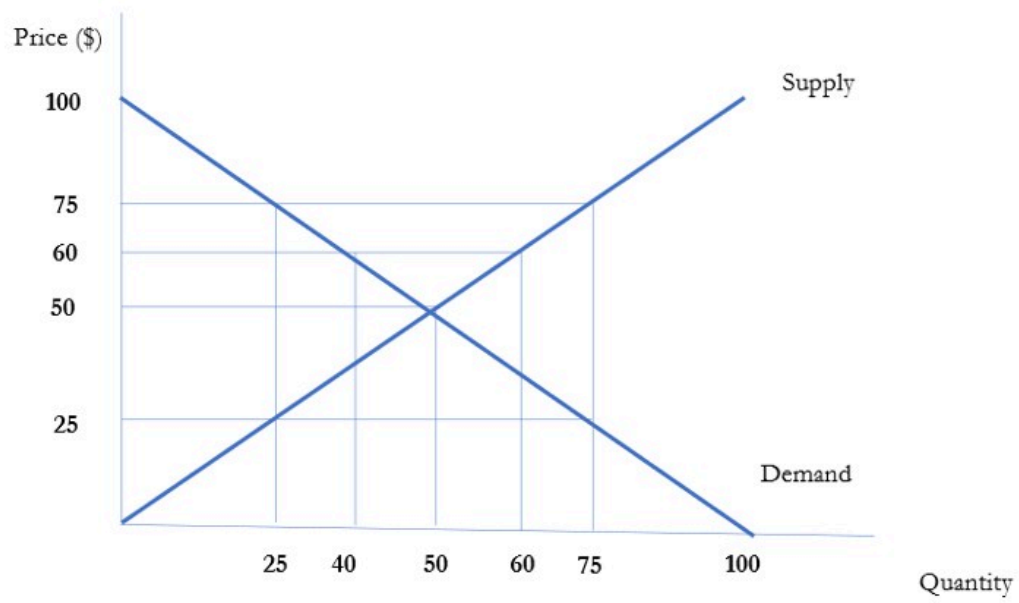
21 In a market characterized by a downward sloping demand curve and upward sloping supply curve, any tax imposed on the sellers in the first place will be passed on, at least in part, to the buyers. Which of the following statements is **CORRECT**?

Select one alternative:

- Holding the slope of the supply curve constant, buyers will pay a larger share of the tax if the demand curve is relatively inelastic, implying that the demand curve is relatively steep. ✔
- Holding the slope of the supply curve constant, buyers will pay a larger share of the tax if the demand curve is relatively elastic, implying that the demand curve is relatively flat.
- Holding the slope of the supply curve constant, buyers will pay a larger share of the tax if the demand curve is relatively elastic, implying that the demand curve is relatively steep.
- Holding the slope of the supply curve constant, buyers will pay a smaller share of the tax if the demand curve is relatively inelastic, implying that the demand curve is relatively steep.

Maximum marks: 1

22 Consider the following figure. Suppose the government imposed a price ceiling (maximum price) of $35. You can conclude that as a result of the price ceiling:



Select one alternative:

- There will be a shortage (excess demand) and the magnitude of this shortage will be less than 50 units. ✔
- There will be a shortage (excess demand) and the magnitude of this shortage will be more than 50 units.
- There will be a surplus (excess supply) and the magnitude of this surplus will be less than 50 units.
- There will be a surplus (excess supply) and the magnitude of this surplus will be equal to 50 units.

Maximum marks: 1

23 Consider the following demand and supply equations. $P_D = 12 - 0.2Q_D$ $P_S = 0.1Q_S$
Suppose the market price is $2. You would expect to see:

Select one alternative:

- A surplus of 20 units.
- A shortage of 30 units. ✔
- A surplus of 10 units.
- A shortage of 50 units.

Maximum marks: 1

24 Which of the following statements regarding the average and marginal cost is **CORRECT**?
Select one alternative:

- When marginal cost is decreasing, marginal cost drags average cost up; when marginal cost is increasing, marginal cost drags average cost down; the marginal cost curve intersects the average cost curve at the maximum of the average cost curve.
- When marginal cost is increasing, marginal cost drags average cost up; when marginal cost is falling, marginal cost drags average cost down; the marginal cost curve inte ✔ cts the average cost curve at the minimum of the average cost curve.
- When average cost is increasing, average cost drags marginal cost up; when average cost is falling, average cost drags marginal cost down; the average cost curve intersects the marginal cost curve at the minimum of the marginal cost curve.
- When marginal cost is increasing, marginal cost drags average cost up; when marginal cost is falling, marginal cost drags average cost down; the marginal cost curve intersects the average cost curve at the maximum of the marginal cost curve.

Maximum marks: 1

25 Consider the information for a firm's costs provided in the table below. For this firm, the average fixed cost when producing 5 units of output is:

Output	Total Cost	Total Variable Cost
0	100	0
1	110	10
2	130	30
3	160	60
4	200	100
5	250	150
6	310	210
7	380	280
8	480	380

Select one alternative:

- $0.
- $10.
- $20. ✔
- $100.

Maximum marks: 1

26 Indira takes a university teaching job as an assistant professor in 2002 at a salary of $70,000. By 2022, she has been promoted to full professor, with a salary of $140,000. The price index in 2002 is 50, and the price index in 2022 is 125. Which of the following statement is **CORRECT**?

Select one alternative:

- In purchasing power terms, Indira is neither worse off nor better off in 2022 compared to 2002 since $70,000 in 2002 and $140,000 in 2022 can buy her the exact same bundle of goods.
- In purchasing power terms, Indira is worse off in 2022 compared to 2002 since she needs $175,000 in 2022 to buy what she could buy for $70,000 in 2002. ✔
- In purchasing power terms, Indira is better off in 2022 compared to 2002 since she needs $100,000 in 2022 to buy what she could buy for $70,000 in 2002.
- In purchasing power terms, Indira is better off in 2022 compared to 2002 since she needs $140,000 in 2022 to buy what she could buy for $70,000 in 2002.

Maximum marks: 1

27 An increase in government spending will have a greater expansionary impact on aggregate spending if the MPC is ____ rather than _____, implying that the consumption multiplier is _____ instead of _____.

Select one alternative:

- 0.2; 0.5; 2; 1.
- 0.2; 0.5; 1.25; 2.
- 0.2; 0.5; 2; 5.
- 0.5; 0.2; 2; 1.25. ✔

Maximum marks: 1

28 If the consumer price index is 100 in the base year and 105 the following year, the inflation rate is::

Select one alternative:

- 105%.
- 5% ✔
- 100%.
- 10%.

Maximum marks: 1

29 If we define the marginal propensity to consume as MPC, then as the MPC approaches one, the consumption multiplier approaches:

Select one alternative:

- One.
- One-half.
- Infinity. ✔
- Zero.

Maximum marks: 1

30 Consider a two-country world with New Zealand and Australia. Suppose investors expect that in the near future, real interest rates will be much higher in New Zealand compared to that in Australia. This would lead to:

Select one alternative

- a shift to the right in the demand for New Zealand dollars and a depreciation of the New Zealand currency.
- a shift to the left in the demand for New Zealand dollars and a depreciation of the New Zealand currency.
- a shift to the right in the demand for New Zealand dollars and an appreciation of the New Zealand currency. ✔
- a shift to the left in the demand for New Zealand dollars and an appreciation of the New Zealand currency.

Maximum marks: 1

31 Suppose the equilibrium exchange rate between the Chinese Yuan and the Japanese Yen should be 20 Yens per Yuan. But, in an effort to boost exports, the Chinese government decides to keep the Yuan undervalued vis-à-vis the Japanese Yen. Which of the following would be commensurate with this act of undervaluing the currency?

Select one alternative:

- Holding the value of the Chinese Yuan to 15 Yens per Yuan. ✔
- Holding the value of the Chinese Yuan to 25 Yens per Yuan.
- Holding the value of the Japanese Yen to 0.04 Yuan per Japanese Yen.
- Allowing the Chinese Yuan to float freely against the Japanese Yen.

Maximum marks: 1

32 Consider the following 3 currencies: New Zealand dollar (NZD), Australian dollar (AUD), and the British pound (GBP). Assume there are no transaction costs when trading/exchanging currencies. Currently NZ $1 can be exchanged for AU $ 0.9. AU $1 can be exchanged for £0.7. What should be the approximate (to two decimal point) nominal exchange rate between the NZ Dollar and the British Pound for there to be **no arbitrage** (no profit-making) opportunity when trading currencies?

Select one alternative:

- NZD 1.59 per British Pound. ✔
- NZD 0.81 per British Pound.
- NZD 1.95 per British Pound.
- NZD 0.63 per British Pound.

Maximum marks: 1

33 If the exchange rate changes from NZ $2 per UK pound to NZ $1 per UK pound then in terms of trade between New Zealand and England:

Select one alternative:

- British exporters are worse off and British importers are better off.
- New Zealand exporters are better off and New Zealand importers are worse off.
- New Zealand exporters are worse off and New Zealand importers are better off. ✔
- The New Zealand dollar depreciates.

Maximum marks: 1

34 An increase in the real interest rate:

Select one alternative:

- increases the price of borrowing funds and hence tends to shift the demand curve for loanable funds to the left.
- decreases the price of borrowing funds and hence tends to shift the demand curve for loanable funds to the right.
- decreases the price of borrowing funds and hence tends to increase the quantity of loanable funds demanded.
- increases the price of borrowing funds and hence tends to lower the quantity of loanable funds demanded. ✔

Maximum marks: 1

35 George usually gets his haircut at the Shearing Shed. But with the cost of living high these days George decides to save some money by cutting his own hair at home. He already has hair-clippers at home that he was gifted a while back. As a result of George's decision:

Select one alternative:

- GDP may increase, decrease or remain the same, based on how well George cuts his own hair.
- GDP stays the same, because the same service was performed by George as would have been performed by the barber.
- GDP is reduced, because George does not cut hair as well as the barber cuts hair.
- GDP is reduced, because George's haircut is no longer a market transaction. ✔

Maximum marks: 1

36 If a country's government removed existing investment tax credits in that country, we would expect to see:

Select one alternative:

- An increase in the demand for loanable funds and lower real interest rates. This in turn will lead to a depreciation of the country's currency and a worsening trade balance.
- An increase in the demand for loanable funds and higher real interest rates. This in turn will lead to a depreciation of the country's currency and a worsening trade balance.
- An increase in the supply of loanable funds and higher real interest rates. This in turn will lead to a depreciation of the country's currency and a worsening trade balance.
- A decrease in the demand for loanable funds and lower real interest rates. This in turn will lead to a depreciation of the country's currency and an improving trade balance. ✔

Maximum marks: 1

37 One of the causes of the downward slope of the aggregate demand curve when graphed against the price level is the "wealth effect". Here, the argument is that:

Select one alternative:

- As the price level increases real wages decline, resulting in a reduction in the costs of production, which leads to a corresponding fall in aggregate demand.
- Everything else held constant, when a country's price level falls then the real exchange rate falls, exports increase and, as a result, so does aggregate demand.
- Everything else held constant, when the price level goes down, people put more money in interest bearing assets thereby increasing the supply of loanable funds, resulting in a lower real interest rate that encourages greater investment and thereby stimulates aggregate demand.
- Everything else held constant, if the price level increases then consumers experience a loss of purchasing power. This leads to a reduction in consumption spending and therefore, aggregate demand. ✔

Maximum marks: 1

38 The following question is based on the information given below regarding output produced and prices in the country of Erehwon. What is the Real GDP for Year 2?

	Output			Price per unit of output		
	Year 1	**Year 2**	**Year 3**	**Year 1**	**Year 2**	**Year 3**
Good X	80	100	120	$1.00	$1.00	$1.20
Good Y	100	120	150	$0.50	$1.00	$1.50

Select one alternative:

- $100.
- $160. ✔
- $300.
- $220.

Maximum marks: 1

39 In recent years, New Zealand has consistently run a current account deficit alongside persistent government budget deficits. Based on your understanding of macroeconomic issues, what is the **most likely** explanation?

Select one alternative:

- The current account deficit implies New Zealand is lending extensively to the rest of the world.
- A current account deficit implies that investment in New Zealand is lower than national saving.
- The government budget deficit contributes to the current account deficit when not offset by increases in private saving. ✔
- Private savings must be unusually high to offset the twin deficits.

Maximum marks: 1

40 Suppose an iPad costs $800 in New Zealand and 22000 Indian Rupees in India. The current exchange rate is 50 Indian rupees per NZ dollar. For the sake of convenience, we will assume that taxes and transportation costs come to NZ $50 per iPad. Given the information above, there is clearly an *arbitrage* opportunity here where:

Select one alternative:

- You buy iPads in India and sell them in New Zealand and make a profit of $360 per iPad.
- You buy iPads in New Zealand and sell them in India and make a profit of $310 per iPad.
- You buy iPads in New Zealand and sell them in India and make a profit of $250 per iPad.
- You buy iPads in India and sell them in New Zealand and make a profit of $310 per iPad. ✔

Maximum marks: 1

41 Which of the following is **NOT** a reason for the negative slope of the aggregate demand curve?

Select one alternative:

- As the price level increases, the real exchange rate increases, resulting in a fall in exports and net exports.
- As the price level increases, real wages decline, resulting in a reduction in the cost of production. ✔
- As the price level increases, the interest rate increases, resulting in a fall in investment expenditure.
- As the price level increases, real wealth declines, resulting in a fall in consumption expenditure.

Maximum marks: 1

42 One of the causes of the downward slope of the aggregate demand curve when graphed against the price level is the “exchange rate effect”. Here, the argument is that:

Select one alternative:

- Everything else held constant, when the price level goes down, people put more money in interest bearing assets, thereby increasing the supply of loanable funds, resulting in a lower real interest rate that encourages greater investment and thereby stimulates aggregate demand.
- Everything else held constant, when a country’s price level falls, then the real exchange rate falls, exports increase and, as a result, so does aggregate demand. ✔
- Everything else held constant, if the price level increases, then consumers experience a loss of purchasing power. This leads to a reduction in consumption spending and therefore, aggregate demand.
- As the price-level increases real wages decline, resulting in a reduction in the costs of production, which leads to a corresponding fall in aggregate demand.

Maximum marks: 1

43 Suppose that in a **closed** economy GDP is 12,000, consumption is 6,500 and investment is 2,500. What must be the value of government expenditure? Further suppose that the government collects $2,500 in taxes. Then you would conclude that the government is running a _____ of _____.

Select one alternative:

- $3000; surplus, $500.
- $1000; surplus, $1,000.
- $4000; deficit, $1,000.
- $3000; deficit, $500. ✔

Maximum marks: 1

44 Which of the following statements is **CORRECT**?

Select one alternative:

- National savings is the sum of private and public savings and as a result when a government runs budget deficits this leads to an increase in national savings.
- National savings is the sum of private and public savings and as a result when a government runs budget surpluses this leads to a reduction in national savings.
- National savings is the sum of private and public savings and as a result when a government runs budget surpluses this leads to an increase in the demand for loanable funds.
- National savings is the sum of private and public savings and as a result when a government runs budget deficits this leads to a reduction in national savings. ✔

Maximum marks: 1

45 Suppose that in an **open** economy GDP is $10,000, consumption is $6,500 and investment is $3,000. Exports are worth $500 while imports are $1500. What must be the value of government expenditure?

Select one alternative:

- $3000.
- $3500.
- $2500.
- $1500. ✔

Maximum marks: 1

46 If the nominal rate of interest is 3% and the rate of inflation is 5%, the real interest rate is:
Select one alternative:

- 8%
- (-)5%
- 2%.
- (-)2%. ✔

Maximum marks: 1

47 In a close economy, **national saving** is defined by all the following identities **EXCEPT**:
Select one alternative:

- Y – C – G.
- private saving + public saving.
- C + I + G. ✔
- (Y – T – C) + (T – G).

Maximum marks: 1

48 Which of the following statements about the relationship between domestic saving, domestic investment, net exports and net financial investment in equilibrium is **INCORRECT**?

Select one alternative:

- In the equilibrium of an open economy, if domestic savings exceed domestic investment, then there will be a net inflow of financial investments. ✔
- In the equilibrium of an open economy, domestic saving is equal to the sum of domestic investment and net exports.
- In the equilibrium of an open economy, if domestic savings exceed domestic investment, then there will be a net outflow of financial investments to overseas.
- In the equilibrium of an open economy, if domestic savings fall short of domestic investment, then the shortfall will be made up by net inflow of financial investments from overseas.

Maximum marks: 1

49 One way for central banks to increase the money supply is to _____ and thereby to _____ the money multiplier.

Select one alternative:

- lower the required reserve ratio; increase. ✔
- raise the required reserve ratio; decrease.
- raise the required reserve ratio; increase.
- lower the required reserve ratio; decrease.

Maximum marks: 1

50 What would happen in the market for loanable funds if the government were to increase the tax on income earned from interest on saving deposits?

Select one alternative:

- the supply of loanable funds would shift left, and the real interest rate will rise. ✔
- the demand for loanable funds would shift left, and the real interest rate will fall.
- the supply of loanable funds would shift right, and the real interest rate will fall.
- the supply of loanable funds would shift right, and the real interest rate will rise.

Maximum marks: 1