

(8 pages)

Reg. No. :

Code No. : 7433

Sub. Code : WESM 21

M.A. (CBCS) DEGREE EXAMINATION,
APRIL 2024.

Second Semester

Economics – Core

MONETARY ECONOMICS

(For those who joined in July 2023 onwards)

Time : Three hours

Maximum : 75 marks

PART A — (15 × 1 = 15 marks)

Answer ALL questions.

Choose the correct answer :

1. Which of the following factors increases the demand for money?
 - (a) Increase in interest rates
 - (b) Decrease in expected inflation
 - (c) Increase in the level of economic activity
 - (d) Increase in money supply

2. The equation $M_d = K * (Y/P)$ represents the
 - (a) Quantity Theory of Money
 - (b) Liquidity Preference Theory
 - (c) Loanable Funds Theory
 - (d) Fisher Equation
3. The real balance effect refers to the relationship between
 - (a) Inflation and nominal interest rates
 - (b) Changes in price level and demand for money
 - (c) Government spending and economic growth
 - (d) Exchange rates and trade balance
4. The primary institution responsible for controlling the money supply in most countries is
 - (a) The government's treasury department
 - (b) Commercial banks
 - (c) The central bank
 - (d) The international monetary fund
5. The money multiplier is higher when
 - (a) The reserve requirement is increased
 - (b) People prefer to hold more cash
 - (c) Interest rates are high
 - (d) The reserve requirement is decreased

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6. Which of the following economic thinkers is most associated with classical theories of interest?
- (a) John Maynard Keynes
 - (b) John Stuart Mill
 - (c) Milton Friedman
 - (d) Joseph Schumpeter
7. Gurley and Shaw's theory focuses on the role of
- (a) Financial intermediaries in the money supply process
 - (b) Inflation and unemployment in the business cycle
 - (c) Government spending and economic growth
 - (d) Interest rates and investment decisions
8. The money market plays an important role in
- (a) Financing long-term infrastructure projects
 - (b) Providing investment opportunities for retirement savings
 - (c) Facilitating short-term borrowing and lending
 - (d) Directly influencing economic growth in the short-run

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9. Examples of capital market instruments include
- (a) Treasury bills and commercial paper
 - (b) Certificates of deposit (CDs)
 - (c) Stocks, bonds, and derivatives
 - (d) Money market accounts
10. Credit creation refers to the process by which
- (a) Commercial banks create new loans based on deposits
 - (b) The central bank directly prints new money
 - (c) Individuals save money in banks
 - (d) Interest rates are determined in the financial markets
11. The Narasimham Committee reports focused on recommending reforms for
- (a) Fiscal policy in India
 - (b) Regulation of the stock market
 - (c) Taxation policies in India
 - (d) The Indian banking sector
12. The Reserve Bank of India is the
- (a) Government treasury department
 - (b) Agent of NITI Aayog
 - (c) A private financial institution
 - (d) Central bank of India

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[P.T.O.]



13. Some common monetary policy instruments include
- (a) Price controls on consumer goods.
 - (b) Open market operations, policy rates and reserve rates
 - (c) Government hiring and firing decisions
 - (d) Regulating the content of advertising campaigns
14. A potential benefit of supply-side economics could be
- (a) More equitable distribution of income
 - (b) A higher level of unemployment in the short run
 - (c) Increased innovation and productivity
 - (d) Greater government control over the economy
15. A limitation of monetary policy is that it may not be able to
- (a) Reduce unemployment in the short term
 - (b) Address issues of income inequality directly
 - (c) Always stimulate economic growth
 - (d) Control inflation perfectly

PART B — (5 × 4 = 20 marks)

Answer ALL questions, choosing either (a) or (b).

Each answer should not exceed 250 words.

16. (a) How did Fisher explain the relationship between the money supply, the price level, and the velocity of circulation of money?

Or

- (b) Explain the basic mechanism behind the Real Balance effect.

17. (a) State and Write the meaning of money supply and its components.

Or

- (b) Illustrate the Liquidity trap and its implications.

18. (a) Elucidate the role of financial intermediaries.

Or

- (b) Expound the Function of Capital Market.



19. (a) How central banks control money and credit supply in India?

Or

- (b) Expose the key recommendations of the Narasimham Committee Reports.

20. (a) Distinguish between monetarism and Keynesianism.

Or

- (b) Clarify how monetary policy stabilise price and economic growth.

PART C — (5 × 8 = 40 marks)

Answer ALL questions choosing either (a) or (b).

Each answer should not exceed 600 words.

21. (a) Analyze how an increase in Real Income lead to more than a proportionate increase in the demand for real cash balance.

Or

- (b) Examine how a change in interest rates might affect the relative attractiveness of holding money versus other assets in Tobin's model.

22. (a) Describe how the reserve requirement ratio impacts the size of the money multiplier.

Or

- (b) Evaluate the influence of monetary and real factors in determining the rate of interest.

23. (a) Assess the importance of the money market for the smooth functioning of the financial system.

Or

- (b) Appraise the concept of "financial intermediaries" and their role in channelling funds between savers and borrowers according to Gurley and Shaw.

24. (a) Narrate the role of commercial banks in the financial system.

Or

- (b) Assess the effectiveness of nationalization in achieving its goals of financial inclusion and social development.

25. (a) Compare and contrast expansionary versus contractionary monetary policy stances.

Or

- (b) Reveal the different policy tools advocated by supply-side economics.

