Dr.Surendra Kumar Class-M.A.Sem-IV

MCQ BASED ON SOLOW &KALDOR GROWTH MODEL

1. The theory of liquidity preference implies that, other things being equal, an increase in the real money supply will:

A) lower the interest rate.
B) raise the interest rate.
C) have no effect on the interest rate.
D) first lower and then raise the interest rate.

2. A decrease in the price level, holding nominal money supply constant, will shift the *LM* curve:

A) upward and to the right.
B) downward and to the right.
C) downward and to the left.
D) upward and to the left.

3. The assumption of constant velocity is equivalent to assuming that the demand for real money balances depends on:

A) income alone.
B) the interest rate alone.
C) income and interest rates.
D) people economizing on real balances as the interest rate rises.

4. When drawn on a graph with income along the

horizontal axis and the interest rate along the vertical axis, the *IS* curve generally:

A) is vertical.
B) is horizontal.
C) slopes upward and to the right.
D) slopes downward and to the right.

5. After the Kennedy tax cut in 1964, real GDP:

A) fell and unemployment rose.
B) rose and unemployment fell.
C) and unemployment both rose.
D) and unemployment both fell.

6. An *IS* curve shows combinations of:

A) taxes and government spending.
B) nominal money balances and price levels.
C) interest rates and income that bring equilibrium in the market for real balances.
D) interest rates and income that bring equilibrium in the market for goods and services.

7. The Keynesian-cross analysis assumes planned investment:

A) is fixed and so does the *IS* analysis.
B) depends on the interest rate and so does the *IS* analysis.
C) is fixed, whereas the *IS* analysis assumes it depends on the interest rate.

D) depends on the interest rate and so does the *IS* analysis.

8. The variable that links the market for goods and services and the market for real money balances in the *IS-LM* model is the:
A) consumption function.
B) interest rate.
C) price level.
D) nominal money supply.

9. When firms experience unplanned inventory accumulation, they typically:
A) build new plants.
B) lay off workers and reduce production.
C) hire more workers and increase production.
D) call for more government spending.

10. The government-purchases multiplier indicates how much ______ change(s) in response to a $1 change in government purchases.
A) the budget deficit
B) consumption
C) income
D) real balances