

BA5101- Economics Analysis For Business

2 Marks Question with Answer

Unit- V

1. Define demand for money (or) liquidity preference?

According to J.M. Keynes defined as the term liquidity preference to refers to demand for money “liquidity preference refers to the preference or desire of the people to hold a part of their of wealth in the form of liquid cash asset”.

2. What is supply of money?

The total stock of money in an economy is the total of all money reserves held by individual and organization.

3. What are the motives of demand for money?

- 1) Transaction motive
- 2) Precautionary motive
- 3) Speculative motive

4. What is speculative motive?

Keynes define speculation motive for holding money as “the object of securing profit from knowing better than the market what the future will bring forth”.

5. What are the factors governing supply of money?

- 1) Gold stock
- 2) Reserve assets with central bank
- 3) Govt Borrowings
- 4) Public sector borrowing
- 5) Foreign assets
- 6) Cash reserve ratio
- 7) People’s choice regarding cash credit proportions
- 8) Deficit financing
- 9) Velocity of circulation of money

6. State the OKUN'S law?

According to Okun's law every two percent GDP falls relative to potential gap, the unemployment rate about one percentage point.

7. State the Phillip's curve?

According to Phillip's "workers are reluctant to offer their services at less than the prevailing rates when the demand for labour is low and unemployment is high so that usage rates fall very slowly".

8. Role of monetary policy in a developing economy?

- 1) Control Inflationary pressures
 - a) Open market operation
 - b) The bank rate policy
 - c) The use of variable reserve ratio
 - d) Qualitative credit control
- 2) To achieve price stability
- 3) To bridge balance of payment deficit
- 4) Interest rate policy
- 5) To create banking and financial institutions

9. Define inflation?

According to Pigou and Keynes "Inflation refers to a state of rise in prices after the stage of full employment is reached".

10. Explain the various type of inflation?

- 1) Basis of causes
 - a) Currency inflation
 - b) Credit inflation
 - c) Purchasing inflation
 - d) Deficit- induced inflation
 - e) Over investment inflation
 - f) Gold finance
 - g) Over-full employment inflation
 - h) Cost-push inflation

- i) Profit or wage induced inflation
- j) Inflation through deflation
- 2) Basis of periods of occurrence
 - a) War-time inflation
 - b) Post-war inflation
 - c) Peace-time inflation
- 3) Basis of intensity of price changes
 - a) Creeping inflation
 - b) Running inflation
 - c) Suppressed inflation
 - d) Latent inflation

11. Define inflationary gap?

Prof. Kuribara defined inflationary gap as the “excess of anticipated expenditures over the available output at base prices.

12. What is supply side economics?

A view emphasizing policy measures to affect aggregate supply or potential output, This approach holds that high marginal tax rates on labour and capital incomes reduce work effort and saving.

13. What are the reason (or) causes for inflation?

- 1) Decline in productivity
- 2) Increase in public expenditure
- 3) War
- 4) Growth of made union
- 5) Trade cycle
- 6) Speculation
- 7) Inflow of gold
- 8) Expansion of credit
- 9) Increase in profits
- 10) Increasing cost of production
- 11) Bottlenecks in production
- 12) Policy of protection
- 13) Industrial policy

- 14) Taxation policy
- 15) Weak administration
- 16) Increasing demand

14. What is Galloping (or) Hyper Inflation?

Hyper inflation is the highest degree of abnormality in the monetary system and under such conditions all assets having fixed income lose their real value.

15. What are the effects/ Impact of inflation?

1) Effects on Redistribution of income and wealth

- a) Debtors and creditors
- b) Salaried persons
- c) Wage earners
- d) Fixed income grove
- e) Equity holders (or) investors
- f) Business man
- g) Agriculturists

2) Effects on production

- a) Misallocation of resources
- b) Changes in the system of transaction
- c) Reduction in production
- d) Fall in quality
- e) Hoarding and black marketing
- f) Reduction in saving
- g) Hinders foreign capital

3) Other effects

- a) Government
- b) Balance of payment
- c) Exchange rate
- d) Social

16. What is meant by money?

The means of payment or medium of exchange for the items constituting money.

17. What are the kinds of money?

- 1) Money of account
- 2) Common money
- 3) Commodity money
- 4) Metallic money
- 5) Paper money

18. Define Demand-pull Inflation?

According to J.M. Keynes Inflation occurs because of an increase in aggregate effective demand for goods and services at a period of full employment.

19. What is cost- push inflation?

Inflation occurs due to increase in the cost production of goods and services due to a variety of reasons.

20. What is liquidity trap?

Keynes hinted as a remote possibility of a situation when the market rate of interest falls to a 'critical' minimum level.

21. What is meant by fiat money?

Another important thing to note is that paper currency or coins are fiat money, which means that currency notes and metallic coins serve as money on the faith of the government. It is also called legal tender.

22. Explain the various measures of money supply?

- 1) Money supply M1 (or) narrow money
- 2) Money supply M2
- 3) Money supply M3 (or) broad money
- 4) Money supply M4

23. State the factors determining money supply?

- a) Bank credit to the government
- b) Bank credit to the commercial (or) private sector
- c) Changes in net foreign exchange assets
- d) Government's currency liabilities to the public

24. What is product market?

The product market is an equilibrium when saving and investment are equal $s = f(y)$.

25. What are the objectives of monetary policy?

1. Maximum feasible output
2. High rate of growth
3. Fuller employment
4. Price stability
5. Greater equality in the distribution of income and wealth
6. Health balance in balance of payments

26. What is debt management?

It refers to the rate of interest at which the central bank rediscounts approved bills of exchange.

27. What is debt management?

It is one of the important function of monetary policy in an under developed country. It aims at proper timing and issuing of government bonds, stabilizing their prices and minimizing the cost of servicing the public debt.

28. Define full employment?

According to Pigou full employment is defined as on when “everybody who at the ruling rate of wages wishes to be employed is in fact employed”.

29. What is unemployment?

It refers to a situation in which those who are willing to work at the prevailing wage rate are unable to get job.

30. State the type of unemployment?

1. Voluntary unemployment
2. Involuntary unemployment
 - a) Seasonal unemployment
 - b) Structural unemployment
 - c) Cyclical unemployment

- d) Frictional unemployment
- e) Disguised unemployment

31. What is disguised unemployment?

This refers to those men who appear to be employed, but make no contribution to the total output.

32. What are the causes of unemployment?

- 1) Dependence on agriculture
- 2) Mechanization of agriculture
- 3) Failure of monsoon
- 4) Absence of non-farm employment
- 5) Capital-intensive techniques
- 6) Decay of village and cottage industries
- 7) Rural economy
- 8) Change in tastes of fashion
- 9) Defective planning
- 10) In abdicate financial sources.

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33. Define money market?

According to Crowther “the money market, properly speaking, is the market for short-term and day-to-day loans”.

34. State the lenders and borrowers?

Lenders are central bank, commercial bank, financial institutions, non-banking financial companies.

Borrowers are merchants, traders, speculators, brokers, manufactures, the government and other institutions.