CHAPTER-4 | Determination of Income and Employment

QUIZ PART-07

1. **Which of the following is not a tool of Fiscal Policy?**
   A. Public Borrowings
   B. Taxes
   C. Bank Rate Policy
   D. Government Expenditure (C)

   Explanation : Bank Rate Policy is a tool of Monetary Policy, not Fiscal Policy.

2. **Which of the following is a Quantitative Instrument of Monetary Policy?**
   A. Margin Requirement
   B. Moral Suasion
   C. Bank Rate Policy
   D. Selective Credit Control (C)

   Explanation: Quantitative instruments include Bank Rate, Repo Rate, Reverse Repo Rate, Open Market Operations, and Reserve Requirements.

3. **To control Excess Demand, government spending should:**
   A. Increase
   B. Decrease
   C. Remain constant
   D. Shift to defence sector (B)

   Explanation: A fall in government expenditure reduces aggregate demand, helping to control excess demand.

4. **To control Deficient Demand, taxes should:**
   A. Increase
   B. Decrease
   C. Remain unchanged
   D. Be shifted to indirect taxes (B)

   Explanation : Reducing taxes increases disposable income, boosting aggregate demand and correcting deficient demand.

5. **When RBI increases the Cash Reserve Ratio (CRR), it is a measure to control:**
   A. Deficient Demand
   B. Excess Demand
   C. Export demand
   D. None of the above (B)

   Explanation: Higher CRR reduces banks' lending capacity, decreasing money supply and controlling excess demand.

6. **Which policy tool is used by RBI to inject liquidity in case of Deficient Demand?**
   A. Increase in Repo Rate
   B. Increase in Reverse Repo Rate
   C. Reduction in CRR
   D. Increase in SLR (C)

   Explanation: Reducing CRR increases banks' credit creation capacity, raising money supply to combat deficient demand.

7. **Which qualitative instrument involves the RBI persuading banks to follow its guidelines?**
   A. Open Market Operations
   B. Moral Suasion
   C. Bank Rate Policy
   D. Repo Rate Policy (B)

   Explanation: Moral Suasion refers to RBI's advisory measures to encourage or discourage bank lending in line with policy.

8. **Which qualitative instrument regulates credit for specific purposes or activities?**
   A. Repo Rate Policy
   B. Reverse Repo Rate Policy
   C. Selective Credit Control
   D. Bank Rate Policy (C)

   Explanation: Selective Credit Control focuses on regulating credit for specific sectors to manage demand.

9. **What does the Paradox of Thrift state?**
   A. More saving always leads to more investment
   B. Increase in saving proportion increases total savings
   C. Higher saving propensity may reduce total savings
   D. Saving and investment are always equal (C)

   Explanation: The Paradox of Thrift says when people try to save more, total savings may remain unchanged or even fall.

10. **Which combination of fiscal and monetary measures helps to combat Excess Demand?**
    A. Decrease in Taxes + Decrease in CRR
    B. Increase in Government Spending + Purchase of Securities
    C. Decrease in Government Spending + Sale of Securities
    D. Increase in Taxes + Decrease in Repo Rate (C)

    Explanation : Excess demand is controlled by contractionary policies like reducing expenditure, selling securities, and raising reserve ratios.