Indian Institute of Technology Delhi
Humanities and Social Sciences Department

Introduction to Economics (HUL 211a), Minor II Exam, 8 October 2014

Question Type A: Total Marks: 20 Duration: 1 hour; Answer all questions

1. Which are the measures to finance a government's fiscal deficit? Which of these measures is/are likely to increase inflation rates in the economy? (2 marks only)

2. What do you understand by CRR? How does the Central Bank increase money supply in an economy using CRR? (2 marks only)

T + P

3. What are the types of demand for money according to the classical school? What are the types of demand for money according to the Keynesian theory? (2 marks only)

T + P & Spec.

4. Liquidity trap is the situation that occurs at ----- rates of interest rates. What happens to the following when the Central Bank increases money supply in an economy suffering from liquidity trap: (i) bond prices (ii) interest rates? (2 marks only)

5. Fill in the blanks: According to the Classical theory, equilibrium in the economy can exist along with .... unemployment (1 mark only)

6. Read the statements X and Y and choose from the options below.
(X) Savings drives investment in the Classical model. (Y) Investment drives savings in the Keynesian model.
Options: (A) X is true but Y is false (B) X is false but Y is true (C) Both X and Y are true (D) Neither X nor Y is true (1 mark only)

7. Using the IS-LM framework, explain (with a graph) what happens to the following in an economy in which there is an increase in investment by the government but no change in money supply: (i) demand for money (ii) interest rates (iii) private investment (iv) overall output and incomes. (4 marks only)

8. Explain the significant differences between the classical and Keynesian schools of economic thinking with respect to (i) how output is determined (ii) effect of an increase in money supply? According to you, which of these schools is more appropriate for a developing country like India? Explain your position. (6 marks only)