

## IASBABA TEST 14 ECONOMY

1. When inflation or 'inflation expectation' in the economy is high, RBI tries to keep the policy rate at a higher level to:

1. Lower the money circulation in the economy.
2. Lower the economic activity in economy.
3. Lower the purchasing power parity.
4. Lower the purchasing power of money.

2. U.S economy was booming during 1950s and 1960s. The Federal Reserve carried out unsustainable economic policy during this period. The Fed kept unemployment low and gave boost to the overall demand for products and services in the 1960s. However, the unnaturally low unemployment during the decade triggered a 'wage-price spiral'. The OPEC oil embargo in 1973 caused the industries across the country to suffer from excessively high oil prices and shortages. Demand fell to new lows and industrial output suffered.

Which of the following can be predicted to be prevailing in U.S economy in following decade?

- a) Mark-up inflation
- b) Galloping inflation
- c) Stagflation
- d) Hyperinflation

3. Which of the following is/are the implication of inflation?

1. Money loses value
2. Consumer's purchasing power gets eroded
3. Exports price more and imports cost less

Select the correct option:

- a) 1 only
- b) 1 and 2 only
- c) 1 and 3 only
- d) All of the above

4. Japan has been struggled with very low inflation since the mid-1990s. Its policy rate and related short-term interest rates have been close to zero for much of that time. However, it is suggested by economists that inflation is often related to growth. When there is 'zero' or very minute inflation, then money in the economy remains almost constant, productions will be at constant and demand will also be at constant. So, it's not good for growing economy.

However, Japan has performed well economically despite its economy being deflationary. What could be the reason for this?

- a) Rich mineral resources of Japan
- b) Robust democracy and good governance
- c) Technological development
- d) International partnership with developed nations like U.S.

5. Which of the following can be the causes for demand-pull inflation?

1. High growth rate of economy
2. Low wage rate
3. Higher government expenditure
4. Inflation expectations
5. Growing asset price

Choose the correct answer using the codes given below:

- a) 1, 2, 3 and 4 only
- b) 1, 2, 4 and 5 only
- c) 1, 3, 4 and 5 only
- d) All of the above

6. Which of the following will cause cost push inflation?

1. Increase in the price of oil
2. Lockdown during COVID-19 and shutting of factories.
3. Locust attack and large-scale damage to the crops.
4. Implementation of 7 th pay commission.

Select the correct option:

- a) 1 and 2 only
- b) 1, 2 and 3 only
- c) 1, 3 and 4 only
- d) All of the above

7. Consider the following statements regarding "Core inflation":

1. Core inflation is an indicator of long-term trend in the inflation.
2. While calculating core inflation transitory price changes are excluded.

Which of the above statement/s is/are correct?

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) Neither 1 nor 2

8. In an economy, if the government is taking fiscal policy like reducing taxes, increasing wages etc. Central bank is taking monetary policy like reducing interest rates. What can be the prevailing economic condition in the economy?

- a) Stagflation
- b) Reflation
- c) Deflation
- d) Markup inflation

9. Consider the following statements:

1. Lending institutions raise the interest rate during inflation.
2. Inflation is advantageous to borrowers and loss to lenders.

Choose the correct answer using the codes given below:

- a) 1 only
- b) 2 only
- c) Both 1 and 2
- d) None of the above