BA SANGAM COLLEGE

YEAR 13

ECONOMICS

Worksheet 1

Topic: Macro-Economics

1.   The money supply aggregate M1 is also referred to as
   A.   near money.
   B.   token money.
   C.   narrow money.
   D.   broad-based money.

   2.   An example of a secondary expansion of money would include
   A.   the process of credit creation.
   B.   customers depositing more money than withdrawing.
   C.   government spending more money than what they raise from tax.
   D.   the Reserve Bank buying government stock from the general public.

3.   A situation where money is derived from the purchases of goods and services is called
   A.   Transactions demand.
   B.   Derived demand.
   C.   Assets demand.
   D.   Final demand.

4.   Crowding Out refers to
   A.   a fall in real incomes caused by rapid increases in the CPI
   B.   a transfer of funds from the private sector to the public sector.
   C.   an increase in congestion caused by traffic problems in city areas.
   D.   the tendency for firms to use to use more capital than labour during periods of rising prices

5.   Which of the following is the best example of the transactions demand for money ?
   A.   leaving some money in your account because you expect interest rates to rise
   B.   leaving some money in your account so you can pay the rent with a cheque
   C.   keeping some cash at home in case of emergencies
   D.   a shop refusing to sell on credit

6.   List **three** factors causing primary expansion of money

7.   Identify two effects of primary expansion of money

1

8. Use the information given below to answer the questions.

Combined Registered Banks Balance Sheet

Assets	$M	Liabilities	$M
Reserves	40	Demand deposits	400
Advances	?		
Total	400	Total	400

      i.   Suppose the notes and coins in circulation is $100m, **Calculate** the value of **M1.**

      ii.   Compute the **prudential reserve**?

      iii.   Assume there was a primary increase of $10M into the Banking System, use the Credit Multiplier to calculate the **Total Increase in Money supply.**

9. Use the following information that describes the conditions in the Banking System of Economy C, and your own knowledge to answer questions (i) to (iv).

	$million
Total Reserves	2 000
Transaction Account Balances	10 000
Notes And Coins Held by The Public	2 000

(i)   Calculate the Money Supply, M1.

(ii)   Construct a balance sheet showing the assets and equities of the combined registered banks.

(iii) Calculate the current prudential reserve ratio.

(iv) If there was a primary injection of $100 million into the Banking System of Economy C, use the credit multiplier to calculate the following:

I. the total increase in money supply.

II. the increase in credit.

III. the increase in credit as a multiple of the primary injection.

The End

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