



## 3055 BA SANGAM COLLEGE

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### REVISION QUESTIONS – WORKSHEET 20 YEAR 13 ECONOMICS

Strand	3 - Macroeconomics
Sub Strand	Changes in Money supply
Content Learning Outcome	Explore the effects of money supply in the economy

#### **Activity : MC – 1 mark each**

- Which of the following is a factor causing **primary expansion** of money supply?
  - Multiplier
  - Interest Rate
  - Money Supply
  - Credit creation
- Sales of bonds and securities by RBF will \_\_\_\_\_ money supply.
  - increase
  - decrease
  - not change
  - fluctuate
- The supply curve for money is perfectly inelastic because money supply
  - is controlled by the central bank and that of primary liquidity
  - has an inverse relationship with interest rate
  - is affected by the interest rate
  - is too big to be determined
- An example of a secondary expansion of money would include
  - the process of credit creation
  - customers depositing more money than withdrawing
  - government spending more money than what they raise from tax
  - the Reserve Bank buying government stock from the general public
- When the banking system accepts a deposit then lends this money out to borrowers, the effect on the money supply is to
  - leaves the money supply unchanged
  - decrease it by the amount of notes and coins deposited
  - increase it by slightly less than the value of the money deposited
  - increase it by an amount many time more than the original deposit

**Short Answer: 1 mark each**

1. Define **Foreign Aid**.
2. State the effect of increase in interest rate on money supply.
3. What is the impact on money supply if reserve bank buys the government bonds and security?

**Essay: 10 marks**

Money has been a part of human history for almost 3,000 years. From the origins of bartering to modern money, this is how the system has evolved

In your explanation, discuss the following :

- The long process of how money has evolved over time
- Three factors causing primary expansion of money
- Two effects of primary expansion of money

**The End**