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14 Which statement about the quantity theory of money is correct?

- **A** It suggests changes in liquidity preference lead to proportional changes in the price level.
- **B** It suggests changes in the money supply lead to proportional changes in the price level.
- **C** It suggests changes in the price level lead to proportional changes in liquidity preference.
- **D** It suggests changes in the price level lead to proportional changes in the money supply.

15 What is a part of Keynesian economic analysis?

- **A** a liquidity trap below which interest rates are ineffective
- **B** an equilibrium price that always clears the market
- **C** a small value for the government expenditure multiplier
- **D** a vertical short-run aggregate supply curve

21 A fall in domestic investment leads to an increase in unemployment.

Which other economic problem is likely to occur as a result?

- **A** an increase in interest rates on loans for house purchases
- **B** an increase in the current account balance of payments deficit
- **C** an increase in the government budget deficit
- **D** an increase in the rate of price inflation

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13 What is likely to reduce the domestic money supply?

- **A** Banks being allowed to hold a lower liquidity ratio.
- **B** Individuals choosing to hold more money in the form of idle balances.
- **C** The government financing its budget deficit by borrowing from the banking sector.
- **D** The government increasing its borrowing from other countries.

19 What would cause an individual's demand curve for an active money balance to move to the left?

- **A** an increase in the frequency of income payments
- **B** an increase in the general price level
- **C** an increase in the individual's income
- **D** an increase in the rate of interest

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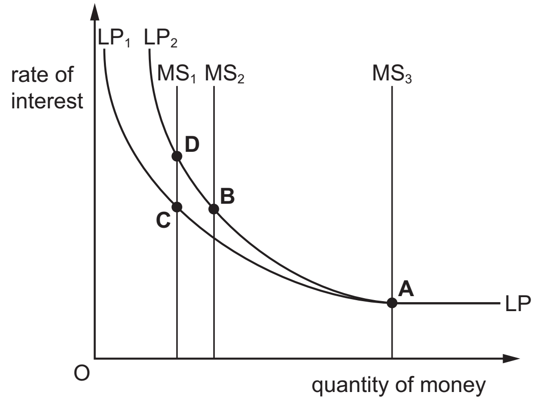
14 Sometimes monetary policy is ineffective. The supply of money (MS) is assumed to be controlled by the central bank. The demand for money is LP. There has been an increase in real income in the economy.

Which position on the diagram makes expansionary monetary policy ineffective?



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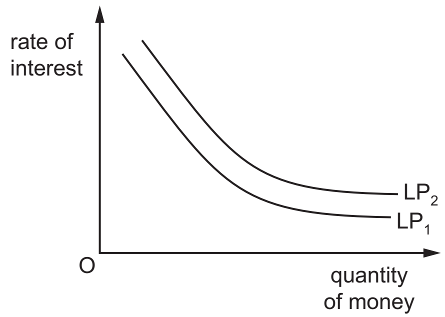
20 The diagram shows two liquidity preference curves LP_1 and LP_2.



What would cause the liquidity preference curve to shift from LP_1 to LP_2?

- **A** There has been a fall in national income.
- **B** There has been a rise in the general price level.
- **C** There has been an increase in government borrowing.
- **D** There has been an increase in the rate of interest.

22 A government decides to raise most of its revenues from indirect taxes.

What would increase the effectiveness of this policy?

A an increasing trend towards bartering of goods

B increasing interest rates on household savings

C increasing occurrence of informal markets in the economy

D placing taxes on goods and services which have a price-inelastic demand