

THE INSTITUTE OF BANKERS PAKISTAN
ISQ Examination (Winter-2010)
MONETARY ECONOMICS

- Q.1** Please write the alphabet of the selected choice in the answer column:
- Q.2** State True or False in the answer column.
- Q.3** The confidence level of firms in an economy improves due to reduction in uncertainty. Consequently, the firms increase their investment spendings. You are required to explain the effect of increased investment spendings by firms on the IS and LM curves. Also, indicate the direction of shift of these curves.
- Q.4** Suppose the money multiplier in an economy is equal to 3. If the central bank of the country intends to inject more money into the economy, how much money would it need to inject mainly to raise the existing stock of money supply by Rs.60 billion?
- Q.5** A small open economy experiences a continuous rise in price inflation. To check the price hike, the central bank of the country adopts a tight monetary policy stance for some time periods. As a result the interest rates in the economy touches unprecedentedly high levels.
- You are required to explain the possible implications of a continuous tight monetary policy stance for small open economy, which has been experiencing a persistent hike in price inflation.
- Q.6** Suppose the central bank of a country pursues an accommodative policy stance and reduces its key policy rate, mainly to avoid recession in the economy. As a consequence of it, the market interest rates drop below the 1% level. However, the business activities in the economy do not surge despite low interest rates. Further, the volume of bank loans also declines considerably.
- Being an analyst, how would you explain this kind of slackness in business activities despite low interest rates prevailing in the economy?
- Q.7** “The objectives of the IMF provide the framework within which the Fund functions”. Briefly explain at least five objectives of IMF.

- Q.8 Define the money market. What role does the money market play in the economy? Do you think money market is also important for government and implementation of monetary policy?**

- Q.9 Define the term monetary stability. How can it be measured? Briefly explain the impact of monetary instability on an economy?**

- Q.10 Define potential output. Why is potential output considered to be an important variable in monetary policy decisions? If the output exceeds its potential level, what are its implications for an economy?**

- Q.11 Pakistan has experienced huge floods in recent times, which has caused widespread devastation in the country with huge losses of wealth. You are required to briefly explain the expected implications of recent floods for monetary policy in Pakistan.**

- Q.12 In its Monetary Policy Statement (MPS) issued in July 2010, State Bank of Pakistan has raised its key policy rate by 50 basis points to 13 percent with effect from 2nd August 2010. You are required to briefly explain the rationale behind the increase in key policy rate of the central bank.**
