4.4 Monetary Policy

Question Paper

Course	CIE IGCSE Economics
Section	4. Government & the Macroeconomy
Topic	4.4 Monetary Policy
Difficulty	Medium

Time allowed: 20

Score: /11

Percentage: /100

Question 1

What is the most likely result of an increase in interest rates?

A. a fall in consumer spending

B. a fall in productivity

C. a rise in borrowing

D. a rise in investment

[1 mark]

Question 2

What can a central bank increase in order to reduce consumer borrowing?

A. commercial bank deposits

B. government spending

C. the exchange rate

D. the rate of interest

[1 mark]

Question 3

What is a monetary policy measure?

A. increasing interest rates

B. increasing taxation

C. reducing the power of trade unions

D. selling state-owned enterprises

[1 mark]

Question 4

In recent years some central banks have reduced interest rates below 1% per year.
What is the purpose of this monetary policy?

A. to discourage lending by the commercial banks

B. to encourage investment to stimulate the economy

C. to increase individual savings

D. to reduce inflation

[1 mark]

Question 5

The table shows possible sequences between the rate of interest and other economic variables. Which sequence is the **most** likely?

	interest rate	borrowing	investment	GDP
A	higher	decrease	increase	increase
B	higher	increase	decrease	decrease
C	lower	decrease	decrease	decrease
D	lower	increase	increase	increase

[1 mark]

Question 6

What is an example of expansionary monetary policy?

A. a decrease in income tax rates

B. a decrease in the budget deficit

C. a decrease in the money supply

D. a decrease in the rate of interest

[1 mark]

Question 7

Which government policy would reduce economic growth?

A. cutting the rate of corporation tax

B. increasing expenditure on education

C. lowering the rate of income tax

D. raising interest rates

[1 mark]

Question 8

The government uses monetary policy and reduces the interest rate.

What might be a consequence of this?

A. a decrease in the rate of inflation

B. an increase in the level of investment

C. an increase in the level of savings

D. an increase in unemployment

[1 mark]

Question 9

What is the most likely effect of a government reducing the money supply?

A. Employment will decrease.

B. Growth will increase.

C. Inflation will increase.

D. Tax rates will decrease.

[1 mark]

Question 10

Which statement about interest rate changes is accurate?

A. A fall in interest rates will always increase inflation.

B. A rise in interest rates may increase cost-push inflation.

C. A rise in interest rates will raise the level of investment in a country.

D. Interest rate changes have no impact on the level of production.

[1 mark]

Question 11

What is likely to assist a government's policy of reducing inflation?

A. allowing businesses to borrow money for longer periods

B. encouraging the public to spend more money

C. increasing lending to members of the public

D. raising the interest rate on credit card borrowing

[1 mark]