BITS PILANI, K.K. BIRLA GOA CAMPUS

I SEMESTER 2019-20 MID SEM EXAM

Course No: Econ F312 Course title: Money, Banking and Finance Markets

05/10/2019 Time: 90 minutes Marks: 30

Instructions:

i: Write your answers legibly. Overwritten answers will not be rechecked.

ii: Your answers need to be supported by intuitive and appropriate economic reasoning, and present them systematically.

iii: If you need to make any assumption, then clearly state it and proceed with your analysis.

iv: Write your answers in sequential order and make an index thereof.

1 How can a high and increasing government fiscal deficit lead to a financial crisis? [4 marks]

2 By drawing appropriate demand and supply diagram, predict what will happen to interest rates if the public suddenly expects a large increase in stock prices. [4 marks

3 How does the conflicts of interest problem arising due to underwriting and research services provided by a single firm result in deteriorations in the efficiency of finance markets? [4 marks]

4 Using the liquidity preference framework, explain **what** would happen to equilibrium rate of interest in an economy and **why**, in each of the following situations (Assumption: other things remaining constant; Use properly constructed diagram in each situation):

   i) A rise in GDP
   ii) A rise in Price level
   iii) A simultaneous rise in both GDP and Price level. [6 marks]

   [No marks will be awarded for answers without correct economic reasoning]

5 You are a regular reader of financial dailies! This morning you read in Economic Times that “the 6.84 per cent Treasury bill maturing in October 2020 fell to Rs 96.5”. (Note: The treasury bill referred here has a maturity period of one year, issued by the RBI on behalf of Government of India.) How would you interpret this news in terms of i) what is the current rate of interest, and ii) what is the current bond price? [2 marks]

6 Using appropriate economic theoretical framework, describe the effects of an expansionary monetary policy on stock prices. [5marks]

7 Using appropriate economic theory/theories of interest rate, show that “yield curves almost always slope upward”. [5 marks]