**Q:1** In which scenario, Inflationary gap is said to happen?

**1.** When Real GDP > Potential GDP
**2.** When Real GDP < Potential GDP
**3.** When Real GDP = Potential GDP
**4.** All of the above
**5.** None of the above

**Q:2** Which of the following measures the level of retail price changes and is the benchmark for measuring inflation?
**1.** Fisher Price Index
**2.** Wholesale Price Index
**3.** Consumer Price Index
**4.** Laspeyres Price Index
**5.** None of the above

**Q:3** Which of the following factors causes inflation?
**1.** Cost-push inflation
**2.** Excess money supply
**3.** Changes in exchange rate
**4.** Demand-pull inflation
**5.** All of the above

**Q:4** What kind of inflation will occur when the inflation rate rises 20% or above?
**1.** Creeping Inflation
**2.** Trotting Inflation
**3.** Hyperinflation
**4.** Galloping Inflation
**5.** None of the above

**Q:5** "Creeping inflation" also known as :
**1.** Expansionary Inflation
**2.** Mild Inflation
**3.** Global Inflation
**4.** Fiscal Inflation
**5.** None of the above

**Q:6** How does Expansionary Fiscal policy affect inflation?
**1.** Runs the risk of causing inflation to rise
**2.** Runs the risk of causing inflation to decrease
**3.** Brings Inflation to an average level
**4.** Keeps Inflation at the same rate
**5.** None of them

**Q:7** Which of the following measure is correct about to control inflation?
**1.** Investment
**2.** Monetary
**3.** Galloping
**4.** Hyper
**5.** Creeping

**Q:8** Four main types of inflation, 'creeping,' 'walking,' 'galloping,' and 'hyperinflation' are categorized by which prospect?
**1.** Average
**2.** Counting
**3.** Speed
**4.** Demand
**5.** Nature

**Q:9** What happens to Inflation in case the interest rate increases?
**1.** Increases
**2.** Decreases
**3.** Remains Constant
**4.** First increase then becomes constant.
**5.** None of the above

**Q:10** Which of the following is a measure taken by Reserve Bank of India to control inflation in our country?
**1.** Increase in CRR
**2.** Increase in SLR
**3.** Contraction of the supply of currency
**4.** Raising of Repo/ Reserve Repo Rate
**5.** Decrease the SLR



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## Answer Key

| | | | | |
|---|---|---|---|---|
| **1.** (1) | **2.** (3) | **3.** (5) | **4.** (3) | **5.** (2) |
| **6.** (1) | **7.** (2) | **8.** (3) | **9.** (2) | **10.** (4) |

## Answers and Solutions

**Q:1** The correct answer is **Option 1** i.e. **When Real GDP > Potential GDP**

- An inflationary gap is a macroeconomic concept that describes the difference between the current level of real gross domestic product (GDP) and the anticipated GDP that would be experienced when an economy is at full employment, also referred to as the potential GDP.
- If real GDP > Potential real GDP (full employment GDP), then an inflationary gap exists.

**Q:2** The correct answer is **Option 3** i.e. **Consumer Price Index**

- Consumer Price Index or CPI is an index measuring retail inflation in the economy by collecting the change in prices of most common goods and services.
- CPI is calculated for a fixed list of items including food, housing, apparel, transportation, electronics, medical care, education, etc.

**Q:3** The correct answer is **Option 5** i.e. **All of the above**

- Inflation can be caused by multiple factors but demand-pull inflation and cost-push inflation are the main causes.
- Other causes of inflation in developing countries are Expansion of the Money Supply, National Debt, Exchange Rate Changes, Devaluation, Rising wages, and Deficit financing.
- Demand-pull inflation occurs when the demand for certain goods and services is greater than the economy's ability to meet those demands, hence it allows producers to raise prices to maximize profits.
- Cost-Push inflation happens when input cost is increased on raw materials and wages for manufacturing consumer goods.

**Q:4** The correct answer is **Option 3** i.e. **Hyperinflation**

- When the inflation rate rises to 20% or above then the situation of hyperinflation will occur. In this stage, inflation is completely out of control.
- No measures or policies prove fruitful in this situation.
- This is the last stage of Inflation.
- Hyperinflation is a term to describe rapid, excessive, and out-of-control general price increases in an economy.
- The two primary causes of hyperinflation are (1) an increase in the money supply not supported by economic growth and (2) demand-pull inflation.

**Q:5** The correct answer is **Option 2** i.e. **Mild Inflation**

- It is also known as mild inflation.
- Creeping inflation is a very slow increase in the prices of goods and services.
- If in a year, prices increase by 3% or less than that then it will be known as Creeping Inflation.
- For example, if the inflation is at the rate of 3% it will take 33 years for the prices to double.
- If the creeping rate of inflation continues, it can become an increasing problem.

**Q:6** The correct answer is **Option 1** i.e. **Runs the risk of causing inflation to rise**

- Fiscal policy is the use of government spending and taxation to influence the economy.
- There are three main types of fiscal policy – neutral policy, expansionary, and contractionary.
- Fiscal policy refers to the tax and spending policies of the federal government.
- Expansionary fiscal policies usually increases liquidity in the economy that could lead to a rise of Inflation.

**Q:7** The correct answer is **option 2** i.e. **Monetary**

- Monetary Measures: Credit Control, Demonetisation of Currency, and Issue of New Currency in place of the old currency
- Fiscal Measures: Reduction in Unnecessary Expenditure, Increase in Taxes, Increase in Savings, Surplus Budgets, Public Debt
- Other Measures: To Increase Production, Rational Wage Policy, Price Control, Rationing

**Q:8** The correct answer is **Option 3** i.e. **Speed**



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They are 'creeping,' 'walking,' 'galloping,' and 'hyperinflation'

- Creeping inflation is a very slow increase in the prices of goods and services
- If in a year, prices increase by 3% or less than thatthen it will be known as creeping inflation
- This stage of inflation can be harmful for the economy
- Consumers will start hoarding the goods because of the fear of that prices will rise more in future
- Earnings of people will not be able to cope up with the increasing prices of goods and services
- In this stage inflation is completely out of control
- No measures or policies prove fruitful in this situation.

**Q:9** The correct answer is **Option 2** i.e. **Decreases**

What is Inflation?

Inflation is the continuous increase in the price of commodities with time.

Relationship between Interest Rate and Inflation.

As the interest rate is increased more people will keep money in the bank since they will get high returns due to this less income is present for the people to purchase any goods hence there is a slowdown in the economy and consequently, Inflation decreases and vice-versa.

**Q:10** The correct answer is **Option 4** i.e. **Raising of Repo/Reserve Repo Rate**

The various methods are usually grouped under three heads:

1. Monetary measures
2. Fiscal measures
3. Other measures

The measures of reducing public expenditure by the government and increasing personal or corporate taxes by the government are used to control inflation in the economy. The decrease in the reverse repo rate by the RBI is not directly related to the control of inflation.



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