

Quiz Date: 18<sup>th</sup> April 2020

**Directions (1-10):** Read the following passage and answer the following questions. Some words are highlighted to help you answer some of the questions.

The recent macro-economic phenomenon of inversion of the yield curve in the US (yield on 10-year US treasuries falling below those of two years) has triggered recession fears. The yield inversion indicates that investors are predicting lower-than-expected inflation and slower growth. In normal times, it may not have been a problem, as the central bank (Federal Reserve) could have used an expansionary monetary policy to stimulate investment spending, and boost economic growth and inflation.

However, at a time when developed countries are adopting the unconventional monetary policy of keeping interest rates low (in the US and the UK) and even negative (Japan, France, Germany and Sweden), the situation differs and is perhaps grim. The further lowering of interest rates by central banks of the US and the UK may push their economies into a liquidity trap, thereby making monetary policy ineffective.

In such circumstances, an expansionary monetary policy raises the supply of money. But given that interest rates are already low/negative, the extra liquidity might not have any effect on aggregate demand, production and employment. All these variables would remain at low levels. Consensus post the global financial crisis of reviving global output through unconventional monetary policy, or standard New-Keynesian stimulus policies, is therefore proving ineffective. Central banks cannot always revive economic output through monetary policy. This means that aggregate demand is not the real problem, and the present global slowdown is the result of negative aggregate supply shocks.

The failure of the monetary policy strengthens the doctrine put forward by economist Alvin Hansen in response to the Great Depression: that economies are suffering from 'secular stagnation'. He argued that Western economies are experiencing a long-term slowdown due to the lack of investment opportunities, waning impact of the industrial revolution, and ageing of the population with little or no immigration.

The secular stagnation view was resurrected by economist Larry Summers in 2013, when he argued that it is almost impossible to boost growth by interest-rate policies. Summers said the present slowdown is a result of structural factors. Western economies are suffering from imbalances — high propensity to save, low to invest. The result is excessive savings and a drag on demand, reducing growth and inflation.

A decade of secular stagnation has pushed the economies (developed and emerging) back into the mercantilist era of 'beggar thy neighbour' policies. The two largest economies — the US and China — are fighting a trade war, which can soon translate into a currency war. International coordination to fight the economic slowdown is at its weakest, not seen since end of World War II. The lack of effective coordination, resurrection of tariff barriers (protectionism), and the US-China trade war acted as a negative aggregate supply shock. These supply shocks could further reduce global growth, exacerbate stagnation and may result in stagflation. For instance, the US-China trade war may alter the cost of producing goods and services by increasing the prices of imported intermediate goods and technological components, thereby disrupting the global value chains.

Such a shock to the global value chains is likely to push both cost and prices upward. The supply shock will lower the economic output and push up prices — resulting in stagflation. In past episodes of stagflations, the central banks responded by increasing the interest rates. Such an option is unlikely to work in the present era, as the crisis is structural. The reality is, with the world becoming more interconnected, ‘beggar thy neighbour’ policies will have drastic global effects. When a country intervenes through unconventional monetary policies, the primary effect is exchange rate depreciation. It makes exports hyper-competitive, driving down domestic production and profits in emerging economies like India. Such policies are likely to dampen India’s exports and its plan to be a global manufacturing hub.

Q1. What does the term “expansionary monetary policy” mean in the passage?

- (a) The act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency
- (b) When a central bank uses its tools to stimulate the economy. That increases the money supply, lowers interest rates, and increases aggregate demand.
- (c) A document that accompanies a prospectus for most initial public offerings, and describes the basic terms of the offering that are of the most important to a registered representative.
- (d) A form of economic policy which involves decreasing the money supply in order to increase the cost of borrowing which in turn decreases GDP and dampens inflation
- (e) None of these.

Q2. What have been the repercussions of adopting unconventional monetary policy by developed countries?

- (a) It leads to a currency war situation between US and China.
- (b) The global value chain among the developed countries is disrupted.
- (c) A decade of secular stagnation has come up which pushed the economies of emerging economies healthy.
- (d) Pushing the developed economies into a liquidity trap thereby making the monetary policy inefficient.
- (e) None of these.

Q3. What can be the possible inference drawn from the passage given above?

- (a) Urgent and concrete monetary policy is needed to reduce risks to the global economy and secure the foundations for stable and sustainable economic growth.
- (b) Climate risks are intensifying, as the world experiences an increasing number of extreme weather events.
- (c) Setbacks in many developing economies and the uneven pace of economic progress across the world.
- (d) The West’s unconventional monetary policies and tariff hikes are making it tough for emerging economies to bounce back
- (e) None of these.

Q4. In response to the Great Depression in western economies what have been the views forwarded by economist Alvin Hansen?

- (a) Lack of Investment opportunities resulting in long-term slowdown
- (b) Ageing of the population with little or no immigration
- (c) Waning impact of the industrial revolution in west.
- (d) Only (a)
- (e) All of these

Q5. As per the passage, which of the following sentence depicts the meaning of the phrase 'beggar thy neighbour' as used in the passage?

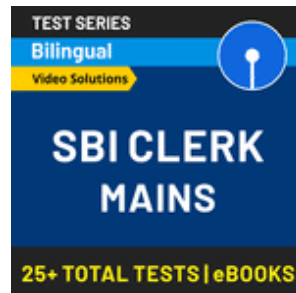
- (a) The monetary policy of a country which is harming its own economy.
- (b) A term used for a set of policies that a country enacts to address its economic woes that, in turn, actually worsens the economic problems of other countries.
- (c) A policy targeting inflation or the interest rate to ensure price stability and general trust in the currency.
- (d) It involves the influence on the level and composition of aggregate demand by the manipulation of interest rates and the availability of credit in the country.
- (e) None of these.

Q6. What are the factors which attribute to negative supply shock?

- (a) Shielding a country's domestic industries from foreign competition policy adopted by countries.
- (b) The US China Trade war resulting in a negative supply shock
- (c) The lack of coordination between the developed and developing economies
- (d) Only (b)
- (e) All of these

Q7. What are the effects of unconventional monetary policy adopted by big economies in emerging economies like India??

- (a) It makes imports hyper-competitive resulting in deceleration of domestic production and profits.
- (b) Making it a global manufacturing hub is achievable for countries like India.
- (c) It leads to be in a good trim with respect to trade between the two developed and developing countries like India
- (d) It makes extremely strong competition in trade which results in driving down domestic production and profits in developing economies.
- (e) None of these.



Directions (8-9): For each of the following words, choose the word which has a meaning OPPOSITE to the meaning of the given words.

Q8. Stimulate

- (a) Encourage
- (b) Prod
- (c) Restrain
- (d) Diversity
- (e) Motivate

Q9. Unconventional

- (a) Accord
- (b) Dissident
- (c) Current
- (d) Acquit
- (e) Complacency

Directions (10): For each of the following words, choose the word which has a meaning SIMILAR to the meaning of the given words.

Q10. Resurrected

- (a) Senility
- (b) Rudimentary
- (c) Cater
- (d) Ruffle
- (e) Regenerate



Directions (11-15): In the following questions two sentences is given with one blank. The sentence is then provided with five options which consist of the words that can fill the given blanks. Choose that option as your answer which can fill both the given blanks to give a contextually and grammatically correct meaning. If none of the given options fills the given blanks then choose option (e), 'None of these' as your answer.

Q11.

(I) A major obstacle to good governance is the entrenched lack of \_\_\_\_\_ within the government.

(II) We must have learned from past that transparency and \_\_\_\_\_ are of the utmost of importance.

- (a) Accountability
- (b) Persistent
- (c) Benign
- (d) Cavalier
- (e) None of these

Q12.

(I) This is a body of new work George has produced over the last twelve months to intrigue and \_\_\_\_\_ the viewer.

(II) Along with the already restored Rolls Royce, the timeless Napier cars are set to \_\_\_\_\_ visitors.

- (a) Consequential
- (b) Bewitch
- (c) Annul
- (d) Corollary
- (e) None of these

Q13.

(I) The Kerala Chief Minister dismissed as \_\_\_\_\_ the claim that Hindi was a unifying force

(II) Mo Yan, a writer who enjoyed delving into the realms of the \_\_\_\_\_, must be feeling like he stepped into one of his novels.

- (a) Dissent
- (b) Foregone
- (c) Absurd
- (d) Ironically
- (e) None of these

Q14.

(I) Men may refuse the challenge of trying to steer a ship on the verge of \_\_\_\_\_, preferring to wait for an easier test.

(II) A boat \_\_\_\_\_ near Rajamahendravaram was caught on camera by a man standing on the shore

- (a) Incentivize
- (b) Incomprehensible
- (c) Inhibit
- (d) Capsizing
- (e) None of these

Q15.

(I) The Centre has moved quickly to \_\_\_\_\_ a potentially volatile controversy over the charge of Hindi imposition.

(II) Mr. Modi should have seized the opportunity and gone to Iran in order to \_\_\_\_\_ the crisis brewing between the U.S. and Iran.

- (a) Defuse
- (b) Muzzling
- (c) Suffice
- (d) Treacherous
- (e) None of these



### Solutions:

S1. Ans. (b)

Sol. Expansionary Monetary Policy is “When a central bank uses its tools to stimulate the economy. That increases the money supply, lowers interest rates, and increases aggregate demand”. This can be inferred from the first paragraph “The yield inversion indicates that investors are predicting lower-than-expected inflation and slower growth. In normal times, it may not have been a problem, as the central bank (Federal Reserve) could have used an expansionary monetary policy to stimulate investment spending, and boost economic growth and inflation”. This makes our option (b) contextually and meaningful correct.

S2. Ans. (d)

Sol. This can be inferred from the second paragraph “The further lowering of interest rates by central banks of the US and the UK may push their economies into a liquidity trap, thereby making monetary policy ineffective”. This makes our option (d) contextually and meaningful correct.

S3. Ans. (d)

Sol. The only correct option is option (d). While going through the passage it is inferred that only option (d) is giving here the appropriate meaning.

S4. Ans. (e)

Sol. This can be inferred from the fifth paragraph of the passage "The failure of the monetary policy strengthens the doctrine put forward by economist Alvin Hansen in response to the Great Depression: that economies are suffering from 'secular stagnation'. He argued that Western economies are experiencing a long-term slowdown due to the lack of investment opportunities, waning impact of the industrial revolution, and ageing of the population with little or no immigration". This makes our option (e) contextually and grammatically correct.

S5. Ans. (b)

Sol. This can be inferred from the sixth paragraph "A decade of secular stagnation has pushed the economies (developed and emerging) back into the mercantilist era of 'beggar thy neighbour' policies. The two largest economies — the US and China — are fighting a trade war, which can soon translate into a currency war", 'beggar thy neighbour' policies will have drastic global effects. When a country intervenes through unconventional monetary policies, the primary effect is exchange rate depreciation. It makes exports hyper-competitive, driving down domestic production and profits in emerging economies like India.

S6. Ans. (e)

Sol. This can be inferred from the seventh paragraph "The lack of effective coordination, resurrection of tariff barriers (protectionism), and the US-China trade war acted as a negative aggregate supply shock." This makes our option (e) contextually and grammatically meaningful correct.

S7. Ans. (d)

Sol. This can be inferred from the last paragraph of the passage i.e "It makes exports hyper-competitive, driving down domestic production and profits in emerging economies like India". This makes our correct option (d) grammatically and contextually meaningful correct.

S8. Ans. (c)

Sol. The correct option is option (c). Encourage, Prod and Motivate is having the same meaning as "Stimulate" which means "encourage or arouse interest or enthusiasm in".

Restrain means prevent from doing something; keep under control or within limits.

Diversity: the state of being diverse

S9. Ans. (c)

Sol The correct option is option (c).

Unconventional means not bound by or in accordance with convention: being out of the ordinary. This is opposite to that of 'Current.'

Accord means formal agreement

Dissident means disagreeing especially with an established religious or political system, organization, or belief

Acquit means free from a charge

Complacency means Self satisfaction

S10. Ans. (e)

Sol Resurrect means “to raise from the dead”, Regenerate means the same.

Senility means “Weakness because of growing old”

Reverence means “Respect”

Ruffle means “To upset or Confuse”

Cater means To fulfil”

S11. Ans. (a)

Sol. The term ‘accountability’ means ‘The fact or condition of being accountable’.

Persistent- continuing to exist or occur over a prolonged period

Benign- Gentle and kind

Cavalier-Showing a lack of proper concern; Offhand, Indifferent, Casual, Dismissive, Insouciant

S12. Ans. (b)

Sol. The term ‘bewitch’ means ‘Enchant and delight someone’.

Consequential-Following as a result or effect

Annul- Declare invalid an official agreement, decision, or result

Corollary- Something that results from something else

S13. Ans. (c)

Sol. The term ‘absurd’ means ‘Wildly unreasonable, illogical, or inappropriate’.

Dissent- The holding or expression of opinions at variance with those commonly or officially held

Ironically-Used in reference to a paradoxical, unexpected, or coincidental situation

S14. Ans. (d)

The term ‘capsize’ means ‘(of a boat) be overturned in the water’.

Incentivize- To make someone want to do something

Inhibit-Hinder, restrain, or prevent an action or process

Incomprehensible-Not able to be understood

S15. Ans. (a)

Sol. The term ‘defuse’ means ‘Make a situation less tense or dangerous.’

Muzzling-Prevent a person or group from expressing their opinions freely

Suffice- Be enough or adequate

Treacherous-Guilty of or involving betrayal or deception

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