20 True or False

Decide, then check the answer and reason below each statement.

Question 1

GNP equals GDP plus net factor income from abroad.

TRUE

GNP adds net factor income earned by residents abroad, minus that earned by foreigners at home, to GDP.

Question 2

GDP already includes net factor income from abroad, so GDP and GNP are the same figure.

FALSE

GDP measures only domestic output; adding net factor income from abroad is what produces GNP instead.

Question 3

Say's Law states that supply creates its own demand.

TRUE

This classical economics proposition is a standard CAIIB ABM definition.

Question 4

Gresham's Law states that good money drives bad money out of circulation.

FALSE

Gresham's Law actually says the opposite: bad money drives good money out of circulation.

Question 5

Disinflation refers to a slower rate of price rise, not an actual fall in prices.

TRUE

Disinflation is a deceleration of inflation; prices are still rising, just more slowly.

Question 6

Disinflation and deflation mean exactly the same thing.

FALSE

Disinflation is slower rising prices, while deflation is an actual fall in the general price level.

Question 7

The Phillips Curve depicts an inverse relationship between inflation and unemployment.

TRUE

Lower unemployment has traditionally been associated with higher inflation, and vice versa.

Question 8

The Laffer Curve shows the relationship between GDP growth and the unemployment rate.

FALSE

The Laffer Curve actually shows the relationship between the tax rate and tax revenue collected.

Question 9

Primary Deficit is calculated as Fiscal Deficit minus interest payments.

TRUE

This isolates the deficit from the burden of servicing past government borrowings.

Question 10

Tax evasion is a legal method that taxpayers can use to reduce their tax liability.

FALSE

Tax evasion is illegal; only tax avoidance is a legal way to reduce tax liability.

Question 11

Giffen goods have an upward-sloping demand curve, unlike normal goods.

TRUE

For Giffen goods, quantity demanded rises as price rises, defying the usual law of demand.

Question 12

Per Capita Income is obtained by dividing national income by total population.

TRUE

It represents the average income of a country's residents.

Question 13

A closed economy actively engages in foreign trade, financial and investment relations.

FALSE

A closed economy, by definition, has no foreign trade, financial or investment relations.

Question 14

Net Domestic Product is calculated as GDP minus consumption of fixed capital (depreciation).

TRUE

NDP adjusts gross output for the depreciation of capital assets during the year.

Question 15

Hyperinflation refers to a mild, steady rise in the general price level.

FALSE

Hyperinflation means sharply rising prices with little output growth, also called runaway inflation.

Question 16

In a perfectly competitive market, no single buyer or seller can influence the price.

TRUE

Perfect competition assumes many participants, homogeneous goods and free entry, so no one sets prices.

Question 17

Crowding out happens when low government borrowing lowers interest rates and boosts private investment.

FALSE

Crowding out is the opposite: excessive government borrowing raises interest rates and discourages private investment.

Question 18

PPP compares currencies based on the price of an identical basket of goods in different countries.

TRUE

Purchasing Power Parity equates prices of the same basket of traded goods and services across countries.

Question 19

Okun's Law links unemployment directly to inflation, with no reference to GDP.

FALSE

Okun's Law links the GDP gap to unemployment, not inflation directly.

Question 20

The CAIIB ABM paper, conducted by IIBF, tests candidates on precise economic definitions.

TRUE

Advanced Bank Management is known for testing recall of exact economic and banking terminology.