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Review Questions

1. The table below gives the recent international data on some important monetary aggregates:

Country	Broad Domestic		Ratio of		Interest rate*	
	money	bank credit	Broad money	Banks' liquid	Nominal	Real**
	(as % of GDP)		to reserve	reserves to		
	2002	2002	money	assets	2001	2001
India	70	64	4.54	7.2	12.1	8.3
Australia	69	91	13.17	1.2	8.1	5.6
China	182	170	3.98	12.7	5.8	5.8
France	—	—	—	—	7.0	5.5
Germany	—	—	—	—	10.0	8.6
Japan	133	143	6.79	2.5	2.0	3.4
Korea (Rep.)	87	108	13.66	2.4	7.7	6.3
Malaysia	102	118	3.83	10.6	6.7	9.5
Nigeria	27	23	2.47	24.0	23.4	16.4
Singapore	115	78	9.01	2.5	5.7	7.8
UK	114	145	34.82	1.1	5.1	2.6
USA	70	91	10.24	0.3	6.9	4.5

Note: * Lending rate

** adjusted by GDP deflator

Sources: (a) *World Development Indicators*, World Bank, 2003.

(b) *International Financial Statistics*, IMF, March 2004

- (a) Analyse the velocity of money across countries
 - (b) Comment on the role of banking across countries
 - (c) Explain the fluctuations in the money multiplier across countries
 - (d) Discuss the degree of monetary controls in different nations
2. While the real interest rate is the appropriate determinant of investment, the nominal interest rate is the relevant one in the money demand function. Discuss.
 3. The supply of money is a monetary policy instrument. Comment.
 4. Money market is an integral part of macroeconomics. Explain.
 5. While the relationship between the quantity of money and the price level is direct and proportional in the classical money demand function, it is not so in the Keynesian demand function (vide function 8.6). Why?
 6. Money supply is backed by foreign exchange assets, among others. Yet, while the foreign exchange reserves have multiplied by over 37 times during 1990–91 through

Part II
Behavioural and Technological
Functions