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Macro Economics - MCQs

Business Economics - MCQ Shastra

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		Unit 2 The Keynesian Theory Of Determination Of National Income		6.4 - 6.5
7	Public Finance	Unit 1 Fiscal Functions: An Overview, Centre And State Finance	10 Marks	7.1 - 7.4
		Unit 2 Market Failure/ Government Intervention To Correct Market Failure		7.5 - 7.8
		Unit 3 The Process Of Budget Making: Sources Of Revenue, Expenditure Management And Management Of Public Debt		7.9 - 7.12
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8	Money Market	Unit 1 The Concept Of Money Demand: Important Theories	10 Marks	8.1 - 8.3
		Unit 2 Concept Of Money Supply		8.4 - 8.6
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9	Internatio nal Trade	Unit 1 Theories Of International Trade	10 Marks	9.1 - 9.2
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		Unit 5 International Capital Movements		9.10 - 9.11
5	Indian Economy	-	10 Marks	10.1 - 10.3
Total			50-55 Marks	

CA Foundation – June 2024
Business Economics

Chapter 6
DETERMINATION OF
NATIONAL INCOME

Unit 1 - NATIONAL INCOME
ACCOUNTING

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR



UNIT 1

Basic

ICAI SM

1 The concept of 'resident unit' involved in the definition of GDP denotes

- A business enterprise which belongs to a citizen of India with production units solely situated in India
- The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status
- A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India
- Households and business enterprises composed of citizens of India alone living in India during the accounting year

ICAI SM

Read the following statements and answer the following question.

- 2
- Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production,
 - Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.

- Only I is true
- Both I and II are true
- Only II is true
- Neither I nor II is true

ICAI SM

3 Gross Domestic Product (GDP) of any nation

- excludes capital consumption and intermediate consumption
- is inclusive of capital consumption or depreciation
- is inclusive of indirect taxes but excludes subsidies
- None of the above

ICAI SM

Read the following statements

- 4
- 'Value added' refers to the difference between value of output and purchase of intermediate goods.
 - 'Value added' represents the contribution of labour and capital to the production process.

- Statements I and II are incorrect
- Statements I and II are correct
- Statement I is correct and II is incorrect
- Statement II is correct and I is incorrect

ICAI SM

5 Non-economic activities are

- those activities whose value is excluded from national income calculation as it will involve double counting
- those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value
- those which do not involve production of goods and services as they are meant to provide hobbies and leisure time activities
- those which result in production for self consumption and therefore not included in national income calculation

ICAI SM	
6	Which of the following does not enter into the calculation of national income?
a) Exchange of previously produced goods b) Exchange of second hand goods c) Exchange of stocks and bonds d) All the above	

ICAI SM	
7	Which of the following enters into the calculation of national income?
a) The value of the services that accompany the sale b) Additions to inventory stocks of final goods and materials c) Stocks and bonds sold during the current year d) (a) and (b) above	

ICAI SM	
8	Gross National Product at market prices GNP MP is
a) $GDP MP + \text{Net Factor Income from Abroad}$ b) $GDP MP - \text{Net Factor Income from Abroad}$ c) $GDP MP - \text{Depreciation}$ d) $GDP MP + \text{Net Indirect Taxes}$	

ICAI SM	
9	Choose the correct statement
a) GNP includes earnings of Indian corporations overseas and Indian residents working overseas; but GDP does not include these b) $NNPFC = \text{National Income} = \text{FID (factor income earned in domestic territory)} - \text{NFIA}$. c) Capital goods and inventory investment are excluded from computation of GDP d) $NDPMP = GDPMP + \text{Depreciation}$	

ICAI SM	
10	The basis of distinction between market price and factor cost is
a) net factor income from abroad b) net indirect taxes (i.e., Indirect taxes - Subsidies) c) net indirect taxes (i.e., Indirect taxes + Subsidies) d) depreciation (consumption of fixed capital)	

ICAI SM	
11	If net factor income from abroad is positive, then
a) national income will be greater than domestic factor incomes. b) national income will be less than domestic factor incomes. c) net exports will be negative d) domestic factor incomes will be greater than national income	

ICAI SM	
12	The GDP per capita is
a) a measure of a country's economic output per person b) actual current income receipts of persons c) national income divided by population d) (a) and (c) above	

ICAI SM	
13	Which of the following is an example of transfer payment?
a) Old age pensions and family pensions b) Scholarships given to deserving diligent students. c) Compensation given for loss of property due to floods d) All the above	

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ICAI SM	
14	Mixed income of the self-employed means
a) net profits received by self-employed people b) outside wages received by self-employed people c) combined factor payments which are not distinguishable, d) wages due to non-economic activities	

ICAI SM	
15	Which of the following is added to national income while calculating personal income?
a) Transfer payments to individuals b) Undistributed profits of corporate c) Transfer payments made to foreigners d) Mixed income of self employed	

Answer Key - Chapter 6 (Unit - 1)

1.	(b)	2.	(b)	3.	(b)	4.	(b)	5.	(b)
6.	(d)	7.	(d)	8.	(a)	9.	(a)	10.	(b)
11.	(a)	12.	(d)	13.	(d)	14.	(c)	15.	(a)

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Business Economics

Chapter 6
DETERMINATION OF
NATIONAL INCOME

Unit 2 - THE KEYNESIAN
THEORY OF DETERMINATION
OF NATIONAL INCOME

MCQ Shastra - Volume I
(Micro Economics)
by MVSIR

UNIT 2

Basic

ICAI SM

1 In the Keynesian model, equilibrium aggregate output is determined by

- a) aggregate demand
- b) consumption function
- c) the national demand for labor
- d) the price level

ICAI SM

2 Keynes believed that an economy may attain equilibrium level of output

- a) only at the full-employment level of output
- b) below the full-employment level of output
- c) only if prices were inflexible
- d) a) and c) above

ICAI SM

3 According to Keynes, consumption expenditure is determined by

- a) the level of interest rates
- b) extent of government taxes and subsidies
- c) disposable income
- d) autonomous investment expenditure

ICAI SM

The marginal propensity to consume (MPC) can be defined as

- a) a change in spending due to a change in income
- b) a change in income that is saved after consumption
- c) part of income that is spent on consumption.
- d) part of income that is not saved.

ICAI SM

5 If the consumption function is expressed as $C = a + bY$ then b represents

- a) autonomous consumer expenditure when income is zero
- b) the marginal propensity to consume
- c) the expenditure multiplier when consumption is increased
- d) part of disposable income

ICAI SM

6 If the consumption function is expressed as $C = a + bY$ then a represents

- a) autonomous consumer expenditure
- b) the marginal propensity to consume
- c) the consumption income relationship
- d) Non-linear consumption function

ICAI SM

7 If the consumption function is $C = 20 + 0.5Y_d$, then an increase in disposable income by Rs. 100 will result in an increase in consumer expenditure by Rs.-----

- a) 25
- b) 70
- c) 50
- d) 100

ICAI SM

8 If the autonomous consumption equals Rs. 2,000 and the marginal propensity to consume equals 0.8. If disposable income equals Rs. 10,000, then total consumption will be Rs. _____

- a) 8,000
- b) 6,000
- c) 10,000
- d) None of the above

ICAI SM

9 In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45-degree line indicates the

- a) level of full employment income.
- b) less than full employment level of income.
- c) equilibrium level of income which may or may not be full employment level of income
- d) autonomous level of income which may not be full employment level of income

ICAI SM

10 In a closed economy, aggregate demand is the sum of

- a) consumer expenditure, demand for exports and government spending.
- b) consumer expenditure, planned investment spending and government spending.
- c) consumer expenditure, actual investment spending, government spending and net exports.
- d) consumer expenditure, planned investment spending, government spending, and net exports.

ICAI SM

11 Under equation $C = a + by$, $b = 0.8$, what is the value of 2 sector expenditure multiplier?

- a) 4
- b) 2
- c) 5
- d) 1

Answer Key - Chapter 6 (Unit - 2)

1.	(a)	2.	(b)	3.	(c)	4.	(a)	5.	(b)	6.	(a)
7.	(c)	8.	(c)	9.	(c)	10.	(b)	11.	(c)		

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Business Economics

Chapter 7

PUBLIC FINANCE

**Unit 1 - FISCAL FUNCTIONS:
AN OVERVIEW, CENTRE AND
STATE FINANCE**

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR

UNIT 1

Basic

ICAI SM

1 **Redistribution policies are likely to have efficiency costs because**

- a) They will reduce the efficiency of governments
- b) They may create disincentives to work and save
- c) Governments have to forego taxes
- d) They are likely to make the poor people dependent on the rich

ICAI SM

2 **Macroeconomic stabilization may be achieved through**

- a) Free market economy
- b) Fiscal policy
- c) Monetary policy
- d) (b) and (c) above

ICAI SM

3 **Which of the following policies of the government fulfils the redistribution function**

- a) Parking the army on the northern borders of the country
- b) Supply of food grains at subsidized prices to the poor people
- c) Controlling the supply of money through monetary policy
- d) All of the above

ICAI SM

4 **Choose the correct statement**

- a) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of price and profit controls.
- b) Fiscal policy involves the use of price and profit controls; while monetary policy involves the use of taxation and government spending.
- c) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of changes in the supply of money and interest rates.
- d) Fiscal policy involves the use of changes in the supply of money and interest rates; while monetary policy involves the use of changes in taxation and government spending.

ICAI SM

5 **The justification for government intervention is best described by**

- a) The need to prevent recession and inflation in the economy
- b) The need to modify the outcomes of private market actions
- c) The need to bring in justice in distribution of income and wealth
- d) All the above

Read the following statements:

- 1. The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy
 - 2. Market failures can at all times be corrected through government intervention
 - 3. Public goods will not be produced in sufficient quantities in a market economy
- Of the three statements above:**

- a) 1,2 and 3 are correct
- b) 1 and 3 are correct
- c) 2 and 3 are correct
- d) 3 alone is correct

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ICAI SM	
7	When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?
a) It is trying to establish stability in an economy b) It is trying to redistribute income and wealth c) It is trying to allocate resources to their most efficient use d) It is creating a source of market failure	

ICAI SM	
8	Government of Emeline Land decides to provide most modern road infrastructure throughout the nation. This can be classified as
a) Distribution function b) Allocation function c) Stabilization function d) None of the above	

ICAI SM	
9	Which function does the government perform when it provides transfer payments to offer support to the underprivileged
a) Allocation b) Efficiency c) Distribution d) None of the above	

ICAI SM	
10	Which of the following is true in respect of centre and state government finances?
a) The centre can tax agricultural income and mineral rights b) Finance commission recommends distribution of taxes between the centre and states c) GST subsumes majority of direct taxes and a few indirect taxes d) IGST is collected by the state governments	

ICAI SM	
11	GST compensation is given to
a) to the industries which have made losses due to the introduction of GST b) to compensate for the lower rates of GST on essential items c) to the states to compensate for the loss of revenue due to the introduction of GST d) to compensate for the loss of input tax credit in manufacturing	

ICAI SM	
12	Which of the following is true in respect of the role of Finance Commissions in India? The distribution between the union and the states of the net proceeds of taxes Allocation between the states of the respective shares of such proceeds. Make Recommendations on integrated GST on inter-state movement of goods and services To recommend expenditure decentralization among different states
a) I and II are correct b) II and III are correct c) I, II and III are correct d) All the above are correct	

ICAI SM	
13	In a federal set up, the stabilization function can be effectively performed by
a) Respective state governments b) Ministry of taxes c) The government at the centre d) None of the above	

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ICAI SM	
14	Which of the following is concerned with division of economic responsibilities between the central and state Government of India?
a) NITI Aayog b) central bank c) Finance Commission d) Parliament	

ICAI SM	
15	Fiscal Federalism refers to _____.
a) Organizing and implementing development plans b) Sharing of political power between centers and states c) The management of fiscal policy by a nation d) Division of economic functions and resources among different layers of the government	

ICAI SM	
6	Which one of the following taxes is levied by the state government only?
a) Corporation tax b) Wealth tax c) Income tax d) None of the above	

ICAI SM	
	The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is
a) 38 percent b) 41 percent c) 42 percent d) The commission has not submitted its report	

ICAI SM	
18	Which of the following is not a criterion for determining distribution of central taxes among states for 2021-26 period
a) Demographic performance b) Forest and ecology c) Infrastructure performance d) Tax and fiscal efforts	

ICAI SM	
19	As per the supreme court verdict in May 2022
a) The union has greater powers than the states for enacting GST laws b) The union and state legislatures have "equal, simultaneous powers" to make laws on Goods and Services Tax c) The union legislature's enactments will prevail in case of a conflict between those of union and states d) The state legislatures can make rules only with the permission of central government	

ICAI SM	
20	Providing social sector services such as health and education is
a) the responsibility of the central government b) the responsibility of the respective state governments c) the responsibility of local administrative bodies d) none of the above	

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Answer Key – Chapter 7 (Unit – 1)

1.	(b)	2.	(d)	3.	(b)	4.	(c)	5.	(d)	6.	(b)
7.	(b)	8.	(b)	9.	(c)	10.	(b)	11.	(c)	12.	(c)
13.	(c)	14.	(c)	15.	(d)	16.	(d)	17.	(b)	18.	(c)
19.	(b)	20.	(b)								

Vora (M)

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Chapter 7

PUBLIC FINANCE

**Unit 2 - MARKET FAILURE/
GOVERNMENT INTERVENTION
TO CORRECT MARKET FAILURE**

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR

UNIT 2

Basic

ICAI SM

1 'Market failure' is a situation which occurs when

- a) private goods are not sufficiently provided by the market
- b) public goods are not sufficiently provided by public sector
- c) The market fail to form or they allocate resources efficiently
- d) (b) and (c) above

ICAI SM

2 Which of the following is an example of market failure?

- a) Prices of goods tend to rise because of shortages
- b) Merit goods are not sufficiently produced and supplied
- c) Prices fall leading to fall in profits and closure of firms
- d) None of the above

ICAI SM

3 Which of the following is an outcome of market power?

- a) makes price equal to marginal cost and produce a positive external benefit on others
- b) can cause markets to be efficient due to reduction in costs
- c) makes the firms price makers and restrict output so as to make allocation inefficient
- d) (b) and(c) above

ICAI SM

4 Markets do not exist

- a) for goods which have positive externalities
- b) for pure public goods
- c) for goods which have negative externalities
- d) none of the above

ICAI SM

5 Which of the following is the right argument for provision of public good by government?

- a) Governments have huge resources at their disposal
- b) Public goods will never cause any type of externality
- c) Markets are unlikely to produce sufficient quantity of public goods
- d) Provision of public goods are very profitable for any government

ICAI SM

6 Adequate amount of a pure public good will not be provided by the private market because of

- a) the possibility of free riding
- b) the existence of very low prices and low profits
- c) governments would any way produce them, so there will be overproduction
- d) there are restrictions as well as taxes on production of public goods

ICAI SM

7 The free rider problem arises because of

- a) ability of participants to produce goods at zero marginal cost
- b) marginal benefit cannot be calculated due to externalities present
- c) the good or service is non excludable
- d) general poverty and unemployment of people

ICAI SM

8 A chemical factory has full information regarding the risks of a product, but continues to sell it. This is possible because of

- a) asymmetric information
- b) moral hazard
- c) free riding
- d) (a) and (c) above

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ICAI SM	
9	If an individual tends to drive his car in a dangerously high speed because he has a comprehensive insurance cover, it is a case of
a) free riding b) moral hazard c) poor upbringing d) inefficiency	

ICAI SM	
10	Smoking in public is a case of
a) Negative consumption externality b) Negative production externality c) Internalising externality d) None of the above	

ICAI SM	
11	Read the following statements I. The market-based approaches to control externalities operate through price mechanism II. When externalities are present, the welfare loss would be eliminated III. The key is to internalizing an externality is to ensure that those who create the externalities include them while making decisions
a) II and III are correct b) I only is correct c) II only is correct d) I and III are correct	

ICAI SM	
12	Which of the following statements is false?
a) Tradable permits provide incentive to innovate and reduce negative externalities b) A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower c) Substantial negative externalities are involved in the consumption of merit goods. d) Merit goods are likely to be under-produced and under consumed through the market mechanism	

ICAI SM	
13	Which one of the following would you suggest for reducing negative externality?
a) Production subsidies b) Excise duty c) Pigouvian taxes d) All of the above	

ICAI SM	
14	A Pigouvian subsidy
a) cannot be present when externalities are present b) is a good solution for negative externality as prices will increase c) is not measurable in terms of money and therefore not practical d) may help production to be socially optimal when positive externalities are present	

ICAI SM	
15	If governments make it compulsory to avail insurance protection, it is because
a) Insurance companies need to be running profitably b) Insurance will generate moral hazard and adverse selection c) Insurance is a merit good and government wants people to consume it d) None of the above	

ICAI SM	
16	The Competition Act, 2002 aims to —
a) protect monopoly positions of firms that have developed unique innovations b) to promote and sustain competition in markets c) to determine pricing under natural monopoly. d) None of the above	

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ICAI SM	
17	Rules regarding product labelling
a) Seeks to correct market failure due to externalities b) Is a method of solving the problem of public good c) May help solve market failure due to information failure d) Reduce the problem of monopolies in the product market	

ICAI SM	
18	Identify the incorrect statement
a) A minimum support price for agricultural goods is a market intervention method to guarantee steady and assured incomes to farmers. b) An externality is internalised if the ones that generated the externality incorporate them into their private cost-benefit analysis c) The production and consumption of demerit goods are likely to be less than optimal under free markets d) Compared to pollution taxes, the cap and trade method is administratively cheap and simple to implement and ensures that pollution is minimised in the most cost-effective way.	

ICAI SM	
19	The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual
a) Is a case of negative externality b) Is a case of market efficiency c) Is a case of free riding d) Is inappropriate and warrant action	

ICAI SM	
20	A government subsidy
a) is a market-based policy b) involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities c) is generally provided for merit goods d) all the above	

ICAI SM	
21	The production and consumption of demerit goods are
a) likely to be more than optimal under free markets. b) likely to be less than optimal under free markets c) likely to be subjected to price intervention by government d) a) and c) above	

ICAI SM	
22	The argument for education subsidy is based on
a) Education is costly b) the ground that education is merit good c) education creates positive externalities d) b) and c) above	

ICAI SM

Read the following statements

- I. Social costs are the total costs incurred by the society when a good is consumed or produced.
- II. The external costs are not included in firms' income statements or consumers' decisions
- III. Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs
- IV. Production and consumption decisions are efficient only when private costs are considered

23

Of the above

- a) Statements I and III are correct
- b) Statements I, II and III are correct
- c) Statement I only is correct
- d) All the above are correct

ICAI SM

24 Government failure occurs when

- a) Government fails to implement its election promises on policies
- b) A government is unable to get reelected
- c) Government intervention is ineffective and produces fresh and more serious problems
- d) None of the above

Answer Key – Chapter 7 (Unit – 2)

1.	(c)	2.	(b)	3.	(c)	4.	(b)	5.	(c)	6.	(a)
7.	(c)	8.	(a)	9.	(b)	10.	(a)	11.	(d)	12.	(c)
13.	(c)	14.	(d)	15.	(c)	16.	(b)	17.	(c)	18.	(c)
19.	(c)	20.	(d)	21.	(d)	22.	(d)	23.	(b)	24.	(c)

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Chapter 7

PUBLIC FINANCE

**Unit 3 - THE PROCESS OF
BUDGET MAKING: SOURCES
OF REVENUE, EXPENDITURE
MANAGEMENT AND
MANAGEMENT OF PUBLIC
DEBT**

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR

UNIT 3

Basic

ICAI SM

1 The difference between the budget deficit of a government and its debt service payments is

- a) Fiscal deficit
- b) Budget deficit
- c) Primary deficit
- d) None of the above

The following hypothetical figures relate to country A

Rs. Crores

Revenue receipts	20,000
Recovery of loans	1,500
Borrowing	15,000
Other Receipts	5,000
Expenditure on revenue account	24,500
Expenditure on capital account	26,000
Interest payments	2,000

ICAI SM

2 The revenue deficit for country A is

- a) 5,000
- b) 24,000
- c) 4,500
- d) None of the above

ICAI SM

3 Fiscal deficit of country A is

- a) 14,000
- b) 24,000
- c) 23,000
- d) None of the above

ICAI SM

4 Primary deficit of Country A is

- a) 26,000
- b) 26,500
- c) 22,000
- d) 24,500

ICAI SM

5 In NITI Aayog, NITI stands for

- a) National Initiative for Transforming India
- b) National Institution for Transforming India
- c) National Institute for Technology and Innovation
- d) None of the above

ICAI SM

6 The Appropriation Bill is intended to

- a) reduce unnecessary expenditure on the part of the government
- b) give authority to government to incur expenditure from and out of the Consolidated Fund of India
- c) give authority to government to incur expenditure from the revenue receipts only
- d) be passed before the budget is taken for discussion

ICAI SM

7 Public debt management aims at

- a) An efficient budgetary policy to avail of domestic debt facilities
- b) Raising loans from international agencies at lower rates of interest
- c) Raising the required amount of funding at the desired risk and cost levels
- d) Management of public expenditure to reduce public debt

ICAI SM

8 The railway budget is

- a) Part of the general budget, but is presented by the railway minister
- b) Part of the general budget from the budget for financial year 2017 -18.
- c) Part of the general budget from the budget for financial year 2021 -22.
- d) Part of the general budget but presented on the next day of the general budget



ICAI SM	
9	Outcome budgeting
a) shares information about the money allocated for various purposes in a budget b) establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators c) establishes a direct link between budgetary performance targets and public account disbursements d) shares information about public policies and programmes under the budget	

ICAI SM	
10	Corporate tax
a) is collected by the union government and can be a capital receipt or revenue receipt b) may be collected by the respective states and fall under revenue receipts c) may be collected either by the centre or states and fall under revenue receipts d) is collected by the union government and is a revenue receipt	

ICAI SM	
11	Government borrowings from foreign governments and institutions
a) Capital receipt b) Revenue receipt c) Accounts for fiscal deficit d) Any of the above depending on the purpose of borrowing	

The following table relates to the revenue and expenditure figures of a hypothetical economy

In Rs. lakh Crores

(a)	Recovery of loans	5.1
(b)	Salaries of govt. servants	41.1
(c)	Capital Expenditure	45.0
(d)	Interest payments	1.3
(e)	Payments towards subsidies	3.2
(f)	Other receipts (mainly from disinvestment)	11.6
(g)	Tax revenue (net of states' share)	26.3
(h)	Non-tax revenue	12.3
(i)	Borrowings and other liabilities	6.8
(j)	States' share in tax revenue	11.9

ICAI SM	
12	The capital receipts are
a) 23.5 b) 19.7 c) 11.3 d) None of the above	

ICAI SM	
13	Revenue deficit is
a) 23.6 b) 13.0 c) 7.0 d) 2.6	

ICAI SM	
14	The non-debt capital receipts of this country is
a) 45.1 b) 16.7 c) 15.8 d) None of the above	

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ICAI SM	
15	A budget is said to be unbalanced when
a) when government's revenue exceeds government's expenditure b) when government's expenditure exceeds government's revenue c) either budget surplus or budget deficit occurs d) All the above	

ICAI SM	
16	Fiscal deficit refers to
a) the excess of government's revenue expenditure over revenue receipts b) The excess of total expenditure over total receipts excluding borrowings c) Primary deficit - interest payments d) None of these	

ICAI SM	
17	Budget of the government generally impacts
a) the resource allocation in the economy b) redistribution of income and enhance equity c) stability in the economy by measures to control price fluctuations d) all the above	

ICAI SM	
18	Which of the following is a statement submitted along with the budget as a requirement of FRBM Act
a) Annual Financial Statement b) Macro -Economic Framework Statement c) Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement d) (b) and (c) above	

ICAI SM	
19	Government borrowing is treated as capital receipt because
a) It is mainly used for creating assets by government b) It creates a liability for the government c) Both a) and b) above are correct d) None of the above is correct	

ICAI SM	
20	'Retail Direct 'scheme is
a) Initiated by the Reserve Bank of India b) facilitate investment in government securities by individual investors. c) Direct sale of goods and services by government departments d) Both (a) and (b) are correct	

ICAI SM	
21	Non-debt capital receipts
a) do not add to the assets of the government and therefore not treated as capital receipts b) are those that do not create any future repayment burden for the government c) are those that create future liabilities for the government d) facilitate capital investments at low cost	

ICAI SM	
22	Which of the following is a capital receipt?
a) Licence fee received b) Sale proceeds from disinvestment c) Assistance from Japan for covid vaccine d) Dividend from a public sector enterprise	

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ICAI SM	
23	Grants given by the central government to state governments is
<p>a) A revenue expenditure as it is meant to meet the current expenditure of the states</p> <p>b) A revenue expenditure as it does neither creates any asset, nor reduces any liability of the government</p> <p>c) A capital expenditure because it increase the capital base of the states</p> <p>d) It is a grant and so does not come under revenue expenditure or capital expenditure.</p>	

ICAI SM	
24	Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as
<p>a) RBI credit to states</p> <p>b) Commercial credit of RBI</p> <p>c) Ways and Means Advances (WMA)</p> <p>d) Short term facility</p>	

Answer Key – Chapter 7 (Unit – 3)

1.	(c)	2.	(c)	3.	(b)	4.	(c)	5.	(b)	6.	(b)
7.	(c)	8.	(b)	9.	(b)	10.	(d)	11.	(a)	12.	(a)
13.	(c)	14.	(b)	15.	(d)	16.	(d)	17.	(d)	18.	(d)
19.	(b)	20.	(d)	21.	(b)	22.	(b)	23.	(b)	24.	(c)

CA Foundation – June 2024
Business Economics

Chapter 7

PUBLIC FINANCE

Unit 4 - FISCAL POLICY

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR



UNIT 4

Basic

ICAI SM

1 Fiscal policy refers to the

- a) use of government spending, taxation and borrowing to influence the level of economic activity
- b) government activities related to use of government spending for supply of essential goods
- c) use of government spending, taxation and borrowing for reducing the fiscal deficits
- d) and (b) above

ICAI SM

2 If real GDP is continuously declining and the rate of unemployment in the economy is increasing, the appropriate policy should be to

- a) Increase taxes and decrease government spending
- b) Decrease both taxes and government spending
- c) Decrease taxes and increase government spending
- d) Either (a) or (c)

ICAI SM

3 Which of the following are likely to occur when an economy is in an expansionary phase of a business cycle?

- a) Rising unemployment rate
- b) Falling unemployment rate
- c) Rising inflation rate
- d) Deflation
- e) Falling or stagnant wage for workers
- f) Increasing tax revenue
- g) Falling tax revenue
- h) A, B and F are most likely to occur
- i) B, C and F are most likely to occur
- j) D, E and F are most likely to occur
- k) A, E and G are most likely to occur

ICAI SM

4 During recession the fiscal policy of the government should be directed towards

- a) Increasing the taxes and reducing the aggregate demand
- b) Decreasing taxes to ensure higher disposable income
- c) Increasing government expenditure and increasing taxes
- d) None of the above

ICAI SM

5 According to Keynesian economics, when we have inflation an effective fiscal policy should not include

- a) increase corporate taxes.
- b) decrease aggregate demand.
- c) Increase government purchases.
- d) None of the above is correct

ICAI SM

6 Keynesian economists believe that

- a) fiscal policy can have very powerful effects in altering aggregate demand, employment and output in an economy
- b) when the economy is operating at less than full employment levels and when there is a need to offer stimulus to demand fiscal policy is of great use
- c) Wages are flexible and therefore business fluctuations would be automatically adjusted
- d) (a) and (b) above

ICAI SM

7 Which of the following may ensure a decrease in aggregate demand during inflation?

- a) decrease in all types of government spending and/ or an increase in taxes
- b) increase in government spending and/ or a decrease in taxes
- c) decrease in government spending and/ or a decrease in taxes
- d) All the above



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ICAI SM

8 A recession is characterized by

- a) Declining prices and rising employment
- b) Declining unemployment and rising prices
- c) Declining real income and rising unemployment.
- d) Rising real income and rising prices

ICAI SM

9 Which one of the following is an example of fiscal policy?

- a) A tax cut aimed at increasing the disposable income and spending
- b) A reduction in government expenditure to contain inflation
- c) An increase in taxes and decrease in government expenditure to control inflation
- d) All the above

ICAI SM

10 Which of the following would illustrate a recognition lag?

- a) The time required to identify the appropriate policy
- b) The time required to identify to pass a legislation
- c) The time required to identify the need for a policy change
- d) The time required to establish the outcomes of fiscal policy

ICAI SM

11 An expansionary fiscal policy, taking everything else constant, would in the short-run have the effect of

- a) a relative large increase in GDP and a smaller increase in price
- b) a relative large increase in price, a relatively smaller increase in GDP
- c) both GDP and price will be increasing in the same proportion
- d) both GDP and price will be increasing in a smaller proportion

ICAI SM

Which statement (s) is (are) correct about crowding out?

- I. A decline in private spending may be partially or completely offset by the expansion of demand resulting from an increase in government expenditure.
- II. Crowding out effect is the negative effect fiscal policy may generate when money from the private sector is 'crowded out' to the public sector.
- III. When spending by government in an economy increases government spending would be crowded out.
- IV. Private investments, especially the ones which are interest-sensitive, will be reduced if interest rates rise due to increased spending by government

12

- a) I and III only
- b) I, II, and III
- c) I, II, and IV
- d) III only

ICAI SM

13

Which of the following policies is likely to shift an economy's aggregate demand curve to the right?

- a) Increase in government spending
- b) Decrease in taxes
- c) A tax cut along with increase in public expenditure
- d) All the above



ICAI SM

14 Identify the incorrect statement

- a) A progressive direct tax system ensures economic growth with stability because it distributes the burden of taxes unequally
- b) A carefully planned policy of public expenditure helps in redistributing income from the rich to the poorer sections of the society.
- c) There are possible conflicts between different objectives of fiscal policy such that a policy designed to achieve one goal may adversely affect another
- d) An increase in the size of government spending during recessions may possibly 'crowd-out' private spending in an economy.

ICAI SM

Read the following statements

- I. Fiscal policy is said to be contractionary when revenue is higher than spending i.e., the government budget is in surplus
- II. Other things constant, a fiscal expansion will raise interest rates and "crowd out" some private investment
- III. During inflation new taxes can be levied and the rates of existing taxes are raised to reduce disposable incomes
- IV. Classical economists advocated contractionary fiscal policy to solve the problem of inflation

Of the above statements

- a) I and II are correct
- b) I, II and III are correct
- c) Only III is correct
- d) All are correct

ICAI SM

16 While resorting to expansionary fiscal policy

- a) the government may possibly have a budget surplus as increased expenditure will bring more output and more tax revenue
- b) the government may run into budget deficits because tax cuts reduce government income and the government expenditures exceed tax revenues in a given year
- c) it is important to have a balanced budget to avoid inflation and bring in stability
- d) None of the above will happen

ICAI SM

17 Contractionary fiscal policy

- a) is resorted to when government expenditure is greater than tax revenues of any particular year
- b) increase the aggregate demand to sustain the economy
- c) to increase the disposable income of people through tax cuts and to enable greater demand
- d) is designed to restrain the levels of economic activity of the economy during an inflationary phase

ICAI SM

18 When government spending is deliberately reduced to bring in stability

- a) the government is resorting to contractionary fiscal policy
- b) the government is resorting to expansionary fiscal policy
- c) trying to limit aggregate demand to sustainable levels
- d) (a) and c) above

ICAI SM

19 An increase in personal income taxes

- a) reduces disposable incomes leading to fall in consumption spending and aggregate demand
- b) is desirable during inflation or when there is excessive levels of aggregate demand
- c) is to compensate the deficiency in effective demand by boosting aggregate spending
- d) both a) and b) are correct

ICAI SM

20 While the government resorts to deliberate fiscal policy it may not attempt to manipulate

- a) Government expenditures on public works
- b) The rates of personal income taxes and corporate taxes
- c) Government expenditures on goods and services purchased by government
- d) The rate of interest prevailing in the economy

ICAI SM

21 Which of the following fiscal remedy would you advice when an economy is facing recession

- a) the government may cut interest rates to encourage consumption and investment
- b) the government may cut taxes to increase aggregate demand
- c) the government may follow a policy of balanced the budget.
- d) None of the above will work

ICAI SM

22 While if governments compete with the private sector to borrow money for securing resources for expansionary fiscal policy

- a) it is likely that interest rates will go up and firms may not be willing to invest
- b) it is likely that interest rates will go up and the individuals too may be reluctant to borrow and spend
- c) it is likely that interest rates will go up and the desired increase in aggregate demand may not be realized
- d) All the above are possible.

Answer Key – Chapter 7 (Unit – 4)

1.	(a)	2	(c)	3	(b)	4.	(b)	5.	(c)	6.	(d)
7.	(a)	8.	(c)	9.	(d)	10.	(c)	11.	(a)	12.	(c)
13.	(d)	14.	(a)	15.	(b)	16.	(b)	17.	(d)	18.	(d)
19.	(d)	20.	(d)	21.	(b)	22.	(d)				

CA Foundation – June 2024
Business Economics

Chapter 8

MONEY MARKET

**Unit 1 - THE CONCEPT OF
MONEY DEMAND: IMPORTANT
THEORIES**

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR

UNIT 1

Basic

ICAI SM

1 Choose the incorrect statement

- a) Anything that would act as a medium of exchange is money
- b) Money has generalized purchasing power and is generally acceptable in settlement of all transactions
- c) Money is a totally liquid asset and provides us with means to access goods and services
- d) Currency which represents money does not necessarily have intrinsic value.

ICAI SM

2 Money performs all of the three functions mentioned below, namely

- a) medium of exchange, price control, store of value
- b) unit of account, store of value, provide yields
- c) medium of exchange, unit of account, store of value
- d) medium of exchange, unit of account, income distribution

ICAI SM

3 Demand for money is

- a) Derived demand
- b) Direct demand
- c) Real income demand
- d) Inverse demand

ICAI SM

4 Higher the _____, higher would be _____ of holding cash and lower will be the _____

- a) demand for money, opportunity cost, interest rate
- b) price level, opportunity cost, interest rate
- c) real income, opportunity cost, demand for money
- d) interest rate, opportunity cost, demand for money

ICAI SM

5 The quantity theory of money holds that

- a) changes in the general level of commodity prices are caused by changes in the quantity of money
- b) there is strong relationship between money and price level and the quantity of money is the main determinant of the price
- c) changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation
- d) All the above

ICAI SM

6 The Cambridge approach to quantity theory is also known as

- a) Cash balance approach
- b) Fisher's theory of money
- c) Classical approach
- d) Keynesian Approach

ICAI SM

7 Fisher's approach and the Cambridge approach to demand for money consider

- a) money's role in acting as a store of value and therefore, demand for money is for storing value temporarily.
- b) money as a means of exchange and therefore demand for money is termed as for liquidity preference
- c) money as a means of transactions and therefore, demand for money is only transaction demand for money.
- d) None of the above

ICAI SM

8 Real money is

- a) nominal money adjusted to the price level
- b) real national income
- c) money demanded at given rate of interest
- d) nominal GNP divided by price level



ICAI SM

9 The precautionary money balances people want to hold

- a) as income elastic and not very sensitive to rate of interest
- b) as income inelastic and very sensitive to rate of interest
- c) are determined primarily by the level of transactions they expect to make in the future.
- d) are determined primarily by the current level of transactions

ICAI SM

10 Speculative demand for money

- a) is not determined by interest rates
- b) is positively related to interest rates
- c) is negatively related to interest rates
- d) is determined by general price level

ICAI SM

11 According to Keynes, if the current interest rate is high

- a) people will demand more money because the capital gain on bonds would be less than return on money
- b) people will expect the interest rate to rise and bond price to fall in the future.
- c) people will expect the interest rate to fall and bond price to rise in the future.
- d) Either a) or b) will happen

12

The inventory-theoretic approach to the transactions demand for money

- a) explains the negative relationship between money demand and the interest rate.
- b) explains the positive relationship between money demand and the interest rate.
- c) explains the positive relationship between money demand and general price level
- d) explains the nature of expectations of people with respect to interest rates and bond prices

ICAI SM

13 According to Baumol and Tobin's approach to demand for money, the optimal average holding is:

- a) a positive function of income Y and the price level P
- b) a positive function of transactions costs c ,
- c) a negative function of the nominal interest rate i
- d) All the above

ICAI SM

14 _____ considered demand for money is as an application of a more general theory of demand for capital assets

- a) Baumol
- b) James Tobin
- c) J M Keynes
- d) Milton Friedman

ICAI SM

15 The nominal demand for money rises if

- a) the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively – decline and vice versa
- b) the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively – rises and vice versa
- c) the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively – remain constant
- d) b) and c) above

Answer Key – Chapter 8 (Unit – 1)

(a)	2.	(c)	3.	(a)	4.	(d)	5.	(d)	6	(a)
(c)	8.	(a)	9.	(a)	10.	(c)	11.	(c)	12	(a)
(d)	14.	(d)	15.	(a)						

CA Foundation – June 2024
Business Economics

Chapter 8

MONEY MARKET

Unit 2 - CONCEPT OF MONEY SUPPLY

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR

UNIT 2

Basic

ICAI SM

1 Reserve money is also known as

- a) central bank money
- b) base money
- c) high powered money
- d) all the above

ICAI SM

2 Choose the correct statement from the following

- a) Money is deemed as something held by the public and therefore only currency held by the public is included in money supply.
- b) Money is deemed as something held by the public and therefore inter-bank deposits are included in money supply.
- c) Since inter-bank deposits are not held by the public, therefore inter-bank deposits are excluded from the measure of money supply.
- d) Both (a) and (c) above.

ICAI SM

3 Reserve Money is composed of

- a) currency in circulation + demand deposits of banks (Current and Saving accounts) + Other deposits with the RBI.
- b) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI.
- c) currency in circulation + demand deposits of banks + Other deposits with the RBI.
- d) currency in circulation + demand and time deposits of banks + Other deposits with the RBI.

ICAI SM

4 M1 is the sum of

- a) currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.
- b) currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.
- c) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI
- d) none of the above

ICAI SM

5 Under the 'minimum reserve system' the central bank is

- a) empowered to issue currency to any extent by keeping an equivalent reserve of gold and foreign securities.
- b) empowered to issue currency to any extent by keeping only a certain minimum reserve of gold and foreign securities.
- c) empowered to issue currency in proportion to the reserve money by keeping only a minimum reserve of gold and foreign securities.
- d) empowered to issue currency to any extent by keeping a reserve of gold and foreign securities to the extent of ` 350 crores

ICAI SM

6 The primary source of money supply in all countries is

- a) the Reserve Bank of India
- b) the Central bank of the country
- c) the Bank of England
- d) the Federal Reserve

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ICAI SM

7

The supply of money in an economy depends on

- a) the decision of the central bank based on the authority conferred on it.
- b) the decision of the central bank and the supply responses of the commercial banking system.
- c) the decision of the central bank in respect of high powered money.
- d) both a) and c) above.

ICAI SM

8

Banks in the country are required to maintain deposits with the central bank

- a) to provide the necessary reserves for the functioning of the central bank.
- b) to meet the demand for money by the banking system
- c) to meet the central bank prescribed reserve requirements and to meet settlement obligations.
- d) to meet the money needs for the day to day working of the commercial banks

ICAI SM

9

If the behaviour of the public and the commercial banks is constant, then

- a) the total supply of nominal money in the economy will vary directly with the supply of the nominal high-powered money issued by the central bank
- b) the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money
- c) the total supply of nominal money in the economy will vary inversely with the supply of high powered money
- d) all the above are possible

ICAI SM

10

Under the fractional reserve system

- a) the money supply is an increasing function of reserve money (or high powered money) and the money multiplier.
- b) the money supply is a decreasing function of reserve money (or high powered money) and the money multiplier.
- c) the money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier.
- d) none of the above as the determinants of money supply are different

ICAI SM

11

The money multiplier and the money supply are

- a) positively related to the excess reserves ratio e .
- b) negatively related to the excess reserves ratio e .
- c) not related to the excess reserves ratio e .
- d) proportional to the excess reserves ratio e .

ICAI SM

12

The currency ratio represents

- a) the behaviour of central bank in the issue of currency.
- b) the behaviour of central bank in respect cash reserve ratio.
- c) the behaviour of the public.
- d) the behaviour of commercial banks in the country.

ICAI SM

13

The size of the money multiplier is determined by

- a) the currency ratio (c) of the public,
- b) the required reserve ratio (r) at the central bank, and
- c) the excess reserve ratio (e) of commercial banks.
- d) all the above



ICAI SM

14 _____ tells us how much new money will be created by the banking system for a given increase in the high-powered money.

a) The currency ratio
b) The excess reserve ratio (e)
c) The credit multiplier
d) The currency ratio (c)

ICAI SM

15 The money multiplier will be large

a) for higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
b) for constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)
c) for lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
d) None of the above

ICAI SM

16 The ratio that relates the change in the money supply to a given change in the monetary base is called the

a) required reserve ratio.
b) money multiplier.
c) deposit ratio.
d) discount rate.

ICAI SM

17 For a given level of the monetary base, an increase in the required reserve ratio will denote

a) a decrease in the money supply.
b) an increase in the money supply.
c) an increase in demand deposits.
d) Nothing precise can be said

ICAI SM

18 For a given level of the monetary base, an increase in the currency ratio causes the money multiplier to _____ and the money supply to _____.

a) decrease; increase
b) increase; decrease
c) decrease; decrease
d) increase; increase

ICAI SM

19 If commercial banks reduce their holdings of excess reserves

a) the monetary base increases.
b) the monetary base falls.
c) the money supply increases.
d) the money supply falls.

Answer Key – Chapter 8 (Unit – 2)

1.	(d)	2.	(c)	3.	(b)	4.	(a)	5.	(b)	6.	(b)
7.	(b)	8.	(c)	9.	(a)	10.	(a)	11.	(b)	12.	(c)
13.	(d)	14.	(c)	15.	(c)	16.	(b)	17.	(a)	18.	(c)
19.	(c)										

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Business Economics

Chapter 8

MONEY MARKET

Unit 3 - MONETARY POLICY

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR

UNIT 3

Basic

ICAI SM

1 Which of the following is the function of monetary policy?

- a) regulate the exchange rate and keep it stable
- b) regulate the movement of credit to the corporate sector
- c) regulate the level of production and prices
- d) regulate the availability, cost and use of money and credit

ICAI SM

2 The main objective of monetary policy in India is _____:

- a) reduce food shortages to achieve stability
- b) economic growth with price stability
- c) overall monetary stability in the banking system
- d) reduction of poverty and unemployment

ICAI SM

3 The monetary transmission mechanism refers to

- a) how money gets circulated in different sectors of the economy post monetary policy
- b) the ratio of nominal interest and real interest rates consequent on a monetary policy
- c) the process or channels through which the evolution of monetary aggregates affects the level of product and prices
- d) none of the above

ICAI SM

4 A contractionary monetary policy-induced increase in interest rates

- a) increases the cost of capital and the real cost of borrowing for firms
- b) increases the cost of capital and the real cost of borrowing for firms and households
- c) decreases the cost of capital and the real cost of borrowing for firms
- d) has no interest rate effect on firms and households

ICAI SM

5 During deflation

- a) the RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
- b) the RBI increases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
- c) the RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy
- d) the RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy

ICAI SM

6 Which of the following statements is correct?

- a) The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same
- b) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself
- c) When repo rates increase, it means that banks can now borrow money through open market operations (OMO)
- d) None of the above

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ICAI SM	
7	RBI provides financial accommodation to the commercial banks through repos/reverse repos under
a) Market Stabilisation Scheme (MSS) b) The Marginal Standing Facility (MSF) c) Liquidity Adjustment Facility (LAF). d) Statutory Liquidity Ratio (SLR)	

ICAI SM	
8	_____ is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.
a) OMO b) CRR c) SLR d) Repo	

ICAI SM	
9	In India, the term 'Policy rate' refers to
a) The bank rate prescribed by the RBI in its half yearly monetary policy statement b) The CRR and SLR prescribed by RBI in its monetary policy statement c) the fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF) d) the fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)	

ICAI SM	
10	Reverse repo operation takes place when
a) RBI borrows money from banks by giving them securities b) banks borrow money from RBI by giving them securities c) banks borrow money in the overnight segment of the money market d) RBI borrows money from the central government	

ICAI SM	
11	The Monetary Policy Framework Agreement is on
a) the maximum repo rate that RBI can charge from government b) the maximum tolerable inflation rate that RBI should target to achieve price stability. c) the maximum repo rate that RBI can charge from the commercial banks d) the maximum reverse repo rate that RBI can charge from the commercial banks	

ICAI SM	
12	An open market operation is an instrument of monetary policy which involves buying or selling of _____ from or to the public and banks
a) bonds and bills of exchange b) debentures and shares c) government securities d) none of these	

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Business Economics

Chapter 9

INTERNATIONAL TRADE

Unit 1 - THEORIES OF INTERNATIONAL TRADE

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR

UNIT 1

Basic

ICAI SM

1. Which of the following does not represent a difference between internal trade and international trade?

- a) transactions in multiple currencies
- b) homogeneity of customers and currencies
- c) differences in legal systems
- d) none of the above

ICAI SM

2. The theory of absolute advantage states that

- a) national wealth and power are best served by increasing exports and decreasing imports
- b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
- c) that the value or price of a commodity depends exclusively on the amount of labour going into its production and therefore factor prices will be the same
- d) differences in absolute advantage explains differences in factor endowments in different countries

ICAI SM

3. Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage?

- a) Modern theory of international trade
- b) The factor endowment theory
- c) The Heckscher-Ohlin Theory
- d) None of the above

ICAI SM

4. Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports

- a) Capitalism
- b) Socialism
- c) Mercantilism
- d) Laissez faire

ICAI SM

5. Given the number of labour hours to produce cloth and grain in two countries, which country should produce grain?

Labour cost (hours) for production of one unit

	Country A	Country B
Cloth	40	80
Grain	80	40

- a) Country A
- b) Country B
- c) Neither A nor B
- d) Both A and B

ICAI SM

6. According to the theory of comparative advantage

- a) trade is a zero-sum game so that the net change in wealth or benefits among the participants is zero.
- b) trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive
- c) nothing definite can be said about the gains from trade
- d) gains from trade depends upon factor endowment and utilization

ICAI SM

7 Given the number of labour hours to produce wheat and rice in two countries and that these countries specialise and engage in trade at a relative price of 1:1 what will be the gain of country X?

Labour cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

- a) 20 labour hours
- b) 10 labour hours
- c) 30 labour hours
- d) Does not gain anything

ICAI SM

8 Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

- a) Bangladesh has a comparative advantage in mats
- b) India has a comparative advantage in tables
- c) Bangladesh has an absolute advantage in mats
- d) All the above are true

9

ICAI SM
Comparative advantage refers to

- a) a country's ability to produce some good or service at the lowest possible cost compared to other countries
- b) a country's ability to produce some good or service at a lower opportunity cost than other countries.
- c) Choosing a productive method which uses minimum of the abundant factor
- d) (a) and (b) above

ICAI SM

10

Ricardo explained the law of comparative advantage on the basis of

- a) opportunity costs
- b) the law of diminishing returns
- c) economies of scale
- d) the labour theory of value

Answer Key – Chapter 9 (Unit – 1)

1.	(b)	2.	(b)	3.	(d)	4.	(c)	5.	(b)	6.	(b)
7.	(b)	8.	(d)	9.	(b)	10.	(d)				

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Chapter 9 INTERNATIONAL TRADE

Unit 2 - THE INSTRUMENTS OF TRADE POLICY

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR



UNIT 2

Basic

ICAI SM

1 A specific tariff is

- a) a tax on a set of specified imported good
- b) an import tax that is common to all goods imported during a given period
- c) a specified fraction of the economic value of an imported good
- d) a tax on imports defined as an amount of currency per unit of the good

ICAI SM

2 A tariff on imports is beneficial to domestic producers of the imported good because

- a) they get a part of the tariff revenue
- b) it raises the price for which they can sell their product in the domestic market
- c) it determines the quantity that can be imported to the country
- d) it reduces their producer surplus, making them more efficient

ICAI SM

3 A tax applied as a percentage of the value of an imported good is known as

- a) preferential tariff
- b) ad valorem tariff
- c) specific tariff
- d) mixed or compound tariff

ICAI SM

4 Escalated tariff refers to

- a) nominal tariff rates on raw materials which are greater than tariffs on manufactured products
- b) nominal tariff rates on manufactured products which are greater than tariffs on raw materials
- c) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries
- d) none of the above

ICAI SM

5 Voluntary export restraints involve:

- a) an importing country voluntarily restraining the quantity of goods that can be exported into the country during a specified period of time
- b) domestic firms agreeing to limit the quantity foreign products sold in their domestic markets
- c) an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time
- d) quantitative restrictions imposed by the importing country's government.

ICAI SM

6 Anti-dumping duties are

- a) additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.
- b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government
- c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market
- d) Both (a), and (c) above

ICAI SM	
7	<p>A countervailing duty is</p> <p>a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country</p> <p>b) charged by importing countries to ensure fair and market-oriented pricing of imported products</p> <p>c) charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies</p> <p>d) All the above</p>

ICAI SM	
8	<p>Which of the following is an outcome of tariff?</p> <p>a) create obstacles to trade and increase the volume of imports and exports</p> <p>b) domestic consumers enjoy consumer surplus because consumers must now pay only a lower price for the good</p> <p>c) discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes</p> <p>d) increase government revenues of the importing country by more than value of the total tariff it charges</p>

ICAI SM	
9	<p>SPS measures and TBTs are</p> <p>a) permissible under WTO to protect the interests of countries</p> <p>b) may result in loss of competitive advantage of developing countries</p> <p>c) increases the costs of compliance to the exporting countries</p> <p>d) All the above</p>

ICAI SM	
10	<p>Which of the following is not a non-tariff barrier.</p> <p>a) Complex documentation requirements</p> <p>b) Import quotas on specific goods</p> <p>c) Countervailing duties charged by importing country</p> <p>d) Pre shipment product inspection and certification requirements</p>

ICAI SM	
11	<p>Under tariff rate quota</p> <p>a) countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement</p> <p>b) a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate</p> <p>c) lower tariff is charged from goods imported from a country which is given preferential treatment</p> <p>d) none of the above</p>

ICAI SM	
12	<p>Non -tariff barriers (NTBs) include all of the following except:</p> <p>a) import quotas</p> <p>b) tariffs</p> <p>c) export subsidies</p> <p>d) technical standards of products</p>

Answer Key –Chapter 9 (Unit – 1)

1.	(d)	2.	(b)	3.	(b)	4.	(b)	5.	(c)	6.	(d)
7.	(d)	8.	(c)	9.	(d)	10.	(c)	11.	(b)	12.	(b)

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Chapter 9

INTERNATIONAL TRADE

Unit 3 - TRADE NEGOTIATIONS

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR

UNIT 3

Basic

ICAI SM

1 Which of the following culminated in the establishment of the World Trade Organization?

- a) The Doha Round
- b) The Tokyo Round
- c) The Uruguay Round
- d) The Kennedy Round

ICAI SM

2 Choose the correct statement

- a) The GATT was meant to prevent exploitation of poor countries by richer countries
- b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.
- c) All members of the World Trade Organization are required to avoid tariffs of all types
- d) All the above

ICAI SM

3 The 'National treatment' principle stands for

- a) the procedures within the WTO for resolving disagreements about trade policy among countries
- b) the principle that imported products are to be treated no worse in the domestic market than the local ones
- c) exported products are to be treated no worse in the domestic market than the local ones
- d) imported products should have the same tariff, no matter where they are imported from

ICAI SM

4 'Bound tariff' refers to

- a) clubbing of tariffs of different commodities into one common measure
- b) the lower limit of the tariff below which a nation cannot be taxing its imports
- c) the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.
- d) the limit within which the country's export duty should fall so that there are cheaper exports

ICAI SM

5 The essence of 'MFN principle' is

- a) equality of treatment of all member countries of WTO in respect of matters related to trade
- b) favour one, country, you need to favour all in the same manner
- c) every WTO member will treat all its trading partners equally without any prejudice and discrimination
- d) all the above

ICAI SM

6 The World Trade Organization (WTO)

- a) has now been replaced by the GATT
- b) has an inbuilt mechanism to settle disputes among members
- c) was established to ensure free and fair trade internationally.
- d) (b) and c) above

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ICAI SM

7 The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments

- a) on increasing agricultural productivity and rural development
- b) market access and agricultural credit support
- c) market access, domestic support and export subsidies
- d) market access, import subsidies and export subsidies

ICAI SM

8 The Agreement on Textiles and Clothing

- a) provides that textile trade should be deregulated gradually and the tariffs should be increased
- b) replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974
- c) granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries
- d) stipulated that tariffs in all countries should be the same

ICAI SM

9 The Agreement on Trade-Related Aspects of Intellectual Property Rights

- a) stipulates to administer a system of enforcement of intellectual property rights.
- b) provides for most-favoured-nation treatment and national treatment for intellectual properties
- c) mandates to maintain high levels of intellectual property protection by all members
- d) all the above

ICAI SM

10 The most controversial topic in the yet to conclude Doha Agenda is

- a) trade in manufactured goods
- b) trade in intellectual property rights-based goods
- c) trade in agricultural goods
- d) market access to goods from developed countries

ICAI SM

11 The WTO commitments

- a) affect developed countries adversely because they have comparatively less agricultural goods
- b) affect developing countries more because they need to make radical adjustments
- c) affect both developed and developing countries equally
- d) affect none as they increase world trade and ensure prosperity to all

Answer Key – Chapter 9 (Unit – 3)

1.	(c)	2.	(b)	3.	(b)	4.	(c)	5.	(d)	6.	(d)
7.	(c)	8.	(b)	9.	(d)	10.	(c)	11.	(b)		

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Chapter 9

INTERNATIONAL TRADE

**Unit 4 – EXCHANGE RATE AND
ITS ECONOMIC EFFECTS**

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR



UNIT 4

Basic

ICAI SM

1

Based on the supply and demand model of determination of exchange rate, which of the following ought to cause the domestic currency of Country X to appreciate against dollar?

- a) The US decides not to import from Country X
- b) An increase in remittances from the employees who are employed abroad to their families in the home country
- c) Increased imports by consumers of Country X
- d) Repayment of foreign debts by Country X

ICAI SM

2

All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?

- a) The demand curve for dollars shifts to the right and Indian Rupee appreciates
- b) The supply of US dollars shrinks and, therefore, import prices decrease
- c) The demand curve for dollars shifts to the right and Indian Rupee depreciates
- d) The demand curve for dollars shifts to the left and leads to an increase in exchange rate

ICAI SM

3

The nominal exchange rate is expressed in units of one currency per unit of the other currency. A real exchange rate adjusts this for changes in price levels'. The statements are

- a) wholly correct
- b) partially correct
- c) wholly incorrect
- d) None of the above

ICAI SM

4

Match the following by choosing the term which has the same meaning

- i. floating exchange rate
- ii. fixed exchange rate
- iii. pegged exchange rate
- iv. devaluation
- v. appreciation

- a. depreciation
- b. revaluation
- c. flexible exchange rate

- a) (i c); (ii d); (iii b); (iv a)
- b) (i b); (ii a); (iii d); (iv c)
- c) (i a); (ii d); (iii b); (iv c)
- d) (i d); (ii a); (iii b); (iv c)

ICAI SM

5

Choose the correct statement

- a) An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency
- b) the fixed exchange rate regime is said to be efficient and highly transparent.
- c) A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency
- d) Exchange rates are generally fixed by the central bank of the country

ICAI SM

6 Which of the following statements is true?

- a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency
- b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency
- c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.
- d) All the above

ICAI SM

7 An increase in the supply of foreign exchange

- a) shifts the supply curve to the right and as a consequence, the exchange rate declines
- b) shifts the supply curve to the right and as a consequence, the exchange rate increases
- c) more units of domestic currency are required to buy a unit of foreign exchange
- d) the domestic currency depreciates and the foreign currency appreciates

ICAI SM

8 Currency devaluation

- a) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries
- b) may reduce export prices and increase the international competitiveness of domestic industries
- c) may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services
- d) (a) and (c) above

ICAI SM

9 At any point of time, all markets tend to have the same exchange rate for a given currency due to

- a) Hedging
- b) Speculation
- c) Arbitrage
- d) Currency futures

ICAI SM

10 'Vehicle Currency' refers to

- a) a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties
- b) a currency that is traded internationally and, therefore, is in high demand
- c) a type of currency used in euro area for synchronization of exchange rates
- d) a currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties



Answer Key – Chapter 9 (Unit – 4)

1.	(b)	2.	(c)	3.	(a)	4.	(d)	5.	(c)
6	(d)	7.	(a)	8.	(b)	9.	(c)	10.	

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Chapter 9

INTERNATIONAL TRADE

Unit 5 - INTERNATIONAL CAPITAL MOVEMENTS

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR



UNIT 5

Basic

ICAI SM

1

Which of the following statements is incorrect?

- a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.
- b) Foreign portfolio investments involve flow of 'financial capital'.
- c) Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services.
- d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.

ICAI SM

2

Which of the following is a component of foreign capital?

- a) Direct inter government loans
- b) Loans from international institutions (e.g. World Bank, IMF, ADB)
- c) Soft loans for e.g. from affiliates of World Bank such as IDA
- d) All the above

ICAI SM

3

Which of the following would be an example of foreign direct investment from Country X?

- a) A firm in Country X buys bonds issued by a Chinese computer manufacturer.
- b) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors
- c) Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm
- d) None of the above

ICAI SM

4

Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?

- a) Brownfield investment
- b) Merger and acquisition
- c) Greenfield investment
- d) Strategic alliances

ICAI SM

5

Which is the leading country in respect of inflow of FDI to India?

- a) Mauritius
- b) USA
- c) Japan
- d) USA

ICAI SM

6

An argument in favour of direct foreign investment is that it tends to

- a) promote rural development
- b) increase access to modern technology
- c) protect domestic industries
- d) keep inflation under control

ICAI SM

7

Which of the following is a reason for foreign direct investment?

- a) secure access to minerals or raw materials
- b) desire to capture of large and rapidly growing emerging markets
- c) desire to influence home country industries
- d) (a) and (b) above

ICAI SM

8

A foreign direct investor

- a) May enter India only through automatic route
- b) May enter India only through government route
- c) May enter India only through equity in domestic enterprises
- d) Any of the above

		ICAI SM
9	Foreign investments are prohibited in	
a)	Power generation and distribution	
b)	Highways and waterways	
c)	Chit funds and Nidhi company	
d)	Airports and air transport	

		ICAI SM
10	Which of the following statement is false in respect of FPI?	
a)	portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments	
b)	is effected largely by individuals and institutions through the mechanism of capital market	
c)	is difficult to recover as it involves purely long-term investments and the investors have controlling interest	
d)	investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.	

Answer Key – Chapter 9 (Unit – 5)

1.	(c)	2.	(d)	3.	(c)	4.	(c)	5.	(a)
6.	(b)	7.	(d)	8.	(d)	9.	(c)	10.	(c)

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Business Economics

Chapter 10
INDIAN ECONOMY

MCQ Shastra – Volume I
(Micro Economics)
by MVSIR

Basic

ICAI SM

1 The Indian industry stagnated under the colonial rule because

- a) Indians were keen on building huge structures and monuments only
- b) Deterioration was caused by high prices of inputs due to draught
- c) The Indian manufactures could not compete with the imports of cheap machine made goods
- d) None of the above

ICAI SM

2 The first wave of liberalization starts in India

- a) In 1951
- b) In 1980's
- c) In 1990
- d) In 1966

ICAI SM

3 The sequence of growth and structural change in Indian economy is characterized by

- a) The historical pattern of prominence of sectors as agriculture, industry, services
- b) The historical pattern of prominence of sectors as industry, services, agriculture
- c) Unique experience of the sequence as agriculture, services, industry
- d) All the above are correct

ICAI SM

4 Merchandise Exports from India Scheme was replaced by -

- a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021
- b) National Logistics Policy (NLP) in 2020
- c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019
- d) None of the above

ICAI SM

5 The Foreign Investment Promotion Board (FIPB)

- a) a government entity through which inward investment proposals were routed to obtain required government approvals
- b) no more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal
- c) no more exists as all inward investments are through automatic route and need no approval
- d) is the body which connects different ministries in respect of foreign portfolio investments

ICAI SM

6 FAME-India Scheme aims to

- a) Enhance faster industrialization through private participation
- b) to promote manufacturing of electric and hybrid vehicle technology
- c) to spread India's fame among its trading partners
- d) None of the above

ICAI SM

7 In terms of Ease of Doing Business in 2020 India ranks

- a) 63
- b) 77
- c) 45
- d) None of the above

ICAI SM

8 E-NAM is -

- a) An electronic name card given to citizens of India
- b) National Agriculture Market with the objective of creating a unified national market for agricultural commodities.
- c) a pan-India electronic trading portal which networks the existing APMC mandis
- d) b) and c) above

ICAI SM

9

Which of the following is not a policy reform included in the new economic policy of 1991 -

- a) removing licensing requirements for all industries
- b) Foreign investment was liberalized
- c) Liberalisation of international trade
- d) The disinvestment of government holdings of equity share capital of public sector enterprises

ICAI SM

10

Imports of foreign goods and entry of foreign investments were restricted in India because -

- a) The government wanted people to follow the policy of 'Be Indian; Buy Indian'
- b) Because foreign goods were costly and meant loss of precious foreign exchange
- c) Government policy was directed towards protection of domestic industries from foreign competition
- d) Government wanted to preserve Indian culture and to avoid influence of foreign culture

ICAI SM

11

The 'Hindu growth rate' is a term used to refer to -

- a) the high rate of growth achieved after the new economic policy of 1991
- b) the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year
- c) the low growth of the economy during British period marked by an average of 3.5 percent
- d) the growth rate of the country because India is referred to as 'Hindustan'

ICAI SM

12

In the context of the new economic policy of 1991, the 'disinvestment' stands for -

- a) A policy whereby government investments are reduced to correct fiscal deficit
- b) The policy of sale of portion of the government shareholding of a public sector enterprise
- c) The policy of public partnership in private enterprise
- d) A policy of opening up government monopoly to the privates sector

ICAI SM

13

The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -

- a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few
- b) to provide for the control of monopolies
- c) to prohibit monopolistic and restrictive trade practice
- d) all the above

ICAI SM

14

Which one of the following is a feature of green revolution -

- a) use of soil friendly green manure to preserve fertility of soil
- b) grow more crops by redistributing land to landless people
- c) High yielding varieties of seeds and scientific cultivation
- d) Diversification to horticulture



ICAI SM	
15	The strategy of agricultural development in India before green revolution was -
a) High yielding varieties of seeds and chemical fertilizers to boost productivity b) Institutional reforms such as land reforms c) Technological up gradation of agriculture d) All the above	

ICAI SM	
16	The Industrial Policy Resolution (1948) aimed at -
a) Market oriented economic reforms and opening up of economy b) A shift from state led industrialization to private sector led industrialisation c) an expanded role for the public sector and licensing to the private sector d) an expanded role of private sector a limited role of public sector	

ICAI SM	
17	The new economic policy of 1991 manifest in -
a) State led industrialization and import substitution b) Rethinking the role of markets versus the state c) Emphasized the role of good governance d) Bringing about reduction in poverty and redistributive justice	

ICAI SM	
18	The post independence economic policy was rooted in -
a) A capitalist mode of production with heavy industrialization b) social and economic redistribution and industrialization directed by the state c) social and economic redistribution through private sector initiatives d) Industrialization led by private entrepreneurs and redistribution by state	

Answer Key

1.	(c)	2.	(b)	3.	(c)	4.	(a)	5.	(b)	6.	(b)
7.	(a)	8.	(d)	9.	(a)	10.	(c)	11.	(b)	12.	(b)
13.	(d)	14.	(c)	15.	(b)	16.	(c)	17.	(b)	18.	(b)