

MULTIPLE CHOICE QUESTIONS

1. Economist regard decision making as important because:
 - (a) The resources required to satisfy our unlimited wants and needs are finite, or scares.
 - (b) It is crucial to understand how we can best allocate our scares resources to satisfy society's unlimited wants and needs.
 - (c) Resources have alternative uses
 - (d) All of the above.

2. Business economics is
 - (a) Abstract and applies the tools of microeconomics.
 - (b) Involves practical application of economic theory in business decision making.
 - (c) Incorporates tools from multiple disciplines
 - (d) (b) and (c) above

3. In Economics, we use the terms scarcity to mean;
 - (a) Absolute scarcity and lack of resources in less developed countries
 - (b) Relative scarcity i.e. scarcity in relation to the wants of the society.
 - (c) Scarcity during times of business failure and natural calamities
 - (d) Scarcity caused an account of excessive consumption by the rich.

4. What implication(s) does resource scarcity have for the satisfaction of wants?
 - (a) Not all wants can be satisfied.
 - (b) We will never be faced with the need to make choice.
 - (c) We must develop ways to decrease our individual wants.
 - (d) The discovery of new natural resources is necessary to increase our ability to satisfy wants

5. Which of the following is a normative statement?
 - (a) Planned economies allocate resources via government department
 - (b) Most transitional economies have experienced problem of falling output and rising price over the past decades.
 - (c) There is a greater degree of consumer sovereignty in market economies than planned economies
 - (d) Reducing inequality should be a major priority of mixed economies.

6. In every economic system, scarcity imposes limitations on?
 - (a) Households, business firms, governments, and the nation as a whole.
 - (b) Households and business firms, but not the government
 - (c) Local and state governments, but not the federal government.
 - (d) Households and governments, but not the business firm.

7. Macro- economics are also called?

(a) Applied	(b) Aggregate	(c) Experimental	(d) None of the above
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8. An example of 'positive' economic analysis would be:
 - (a) An analysis of the relationship between the price of food and the quantity purchased
 - (b) Determining how much income each person should be guaranteed.

(c) Determining the 'fair' price for the food
(d) Deciding how to distribute the output of the economy.

9. A study of how increase in the corporate income tax rate will affect the national unemployment rate is an example of?
(a) Macro economics
(b) Descriptive Economics
(c) Micro-economics.
(d) Normative economics

10. Which of the following does not suggest a macro approach for India?
(a) Determining the GNP of India.
(b) Finding the cause of failure of ABC Ltd.
(c) Identifying the causes of inflation in India
(d) Analyse the causes of failure of industry in providing large scale employment

11. Ram : my corn harvest this year is poor.
Krishan : Don't worry. Price increases will compensate for the fall in quantity supplied.
Vinod : Climate affects crop yields. Some years are bad, others are good.
Madhu : The Government ought to guarantee that our income will not fall.
In this conversation, the normative statement is made by
(a) Ram (b) Krishan (c) Vinod (d) Madhu

12. Consider the following and decide which, if any, economy is without scarcity?
(a) The pre-independent Indian economy, where most people were farmers
(b) A mythical economy where everybody is a billionaire.
(c) Any economy where income is distributed equally among its people
(d) None of the above

13. Which of the following is not a subject matter of Micro-economics.?
(a) The price of mangoes
(b) The cost of producing a fire truck for the fire department of Delhi, India.
(c) The quantity of mangoes produced for the mangoes market
(d) The national economy's annual rate of growth

14. The branch of economic theory that deals with the problem of allocation of resources is
(a) Micro-Economic theory
(b) Macro-Economic theory
(c) Econometrics
(d) None of these

15. Which of the following is not a subject matter of Business-economics?
(a) Should our firm be in this business?
(b) How much should be produced and at what price should be kept?
(c) How will the product be placed in the market?
(d) How should we decrease unemployment in the economy?

16. Which of the following is a normative economic statement?

- Unemployment rate decrease with industrialization
- Economics is a social science that studies human behaviour
- The minimum wage should be raised to Rs. 200/- per day
- India spends a huge amount of money on national defense.

17. Which of the following would be considered a topic of study in Macroeconomics?

- The effect of increase in wages on the profitability of cotton industry.
- The effect of steel prices when more steel is imported.
- The effect of an increasing inflation rate on living standards of people in India
- The effect of an increase in the price of coffee on the quantity of tea consumed.

18. The difference between positive and normative Economics is:

- Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance
- Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.
- Positive Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people
- Positive economics prescribes while normative Economics describes.

19. Which of the following is not within the scope of Business Economics?

- Capital Budgeting
- Risk analysis
- Business cycles
- Accounting Standards.

20. Which of the following statement is incorrect?

- Business economics is normative in nature
- Business Economics has a close connection with statistics
- Business Economist need not worry about macro variables
- Business Economics is also called Managerial Economics

21. Economic goods are considered scarce resources because they

- Cannot be increased in quantity
- Do not exist in adequate quantity to satisfy the requirements of the society.
- are of primary importance in satisfying social requirements.
- are limited to man made goods.

22. In a free market economy the allocation of resources is determined by

- Voting done by the consumers
- A central planning authority
- Consumer preference
- The level of profits of firms

23. A capitalist economy uses _____ as the principal means of allocation resources.

- Demand
- Supply
- efficiency
- prices

24. Which of the following is considered as a disadvantage of allocating resources using the market system?

- (a) Income will tend to be unevenly distributed
- (b) People do not get goods of their choice
- (c) Men of initiative and enterprise are not rewarded
- (d) Profits will tend to be low.

25. Which of the following statements does not apply to a market economy?

- (a) Firms decide whom to hire and what to produce
- (b) Firms aim at maximizing profits
- (c) Households decide which firms to work for and what to buy with their incomes.
- (d) Government policies are the primary forces that guide the decisions of firms and households

26. In a mixed economy

- (a) All economic decisions are taken by the central authority
- (b) All economic decisions are taken by private entrepreneurs.
- (c) Economic decisions are partly taken by the state and partly by the private entrepreneurs
- (d) None of the above

27. The central problem in economics is that of

- (a) Comparing the success of command versus market economies
- (b) Guaranteeing the production occurs in the most efficient manners
- (c) Guaranteeing a minimum level of income for every citizen.
- (d) Allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.

28. Capital intensive technique would get chosen in a

- (a) Labour surplus economy where the relative price of capital is lower
- (b) Capital surplus economy where the relative price of capital is lower
- (c) Developed economy where technology is better
- (d) Developing economy where technology is poor

29. Which of the following is not one of the four central questions that the study of economics is supported to answer?

(a) Who produce what?	(b) When are goods produced?
(c) Who consume what?	(d) How are goods produced?

30. Large production of _____ goods would lead to higher production in future?

(a) Consumer goods	(b) Capital goods
(c) Agricultural goods	(d) Public goods

31. The economic system in which all the means of production are owned and controlled by private individuals for profit.

(a) Socialism	(b) Capitalism
(c) Mixed economy	(d) Communism

32. Macro Economics is the study of _____ -

- (a) All aspects of scarcity
- (b) The national economy and the global economy as a whole.
- (c) Big business
- (d) The decisions of individual businesses and people.

33. Freedom of choice is the advantage of

(a) Socialism	(b) Capitalism
(c) Communism	(d) None of the above

34. Exploitation and inequality are minimal under:

(a) Socialism	(b) Capitalism
(c) Mixed economy	(d) None of the above.

35. Administered price refer to:

- (a) Price determined by the forces of demand and supply.
- (b) Prices determined by sellers in the market
- (c) Prices determined by an external authority which is usually the government
- (d) None of the above

36. The meaning of the word "economic" is most closely connected with the word _____.

- (a) Extravagant
- (b) Scarce
- (c) Unlimited
- (d) Restrictive

37. In economics, 'the central economic problem' means _____.

- (a) consumers do not have as much money as they would wish
- (b) there will always be a certain level of unemployment
- (c) resources are not always allocated in an optimum way
- (d) output is restricted to the limited availability of resources

38. Which of the following suggests a micro approach for India?

- (a) identifying the cause of large scale unemployment in India
- (b) input output analysis for the economy
- (c) finding causes of high turnover in ABC Ltd
- (d) analysing distribution of coal in the country

39. State whether Economics is _____

- (a) a positive science only
- (b) neither a positive nor normative science
- (c) a science but not art
- (d) a science or an art depending on who uses economics and for what purpose

40. State which of the following refers to the macro approach from a national angle

- (a) unemployment among the educated people in India
- (b) profitability ratio of Bharat Heavy Electricals Limited
- (c) turnover ratio in Telco
- (d) none of the above

41. _____ Economic explains economic phenomena according to their causes and effects
(a) positive (b) normative (c) empirical (d) applied

42. State interference is maximum in _____
(a) mixed economy (b) socialist economy
(c) capitalist economy (d) None of the above.

43. Scarcity can be avoided by making _____
(a) needs unlimited (b) wants unlimited
(c) resource limited (d) wants and needs limited

44. Every economy is characterized by _____
(a) unlimited wants and needs (b) no energy resources
(c) unlimited material resources (d) abundant productive labour

45. Economics who are concerned about the behavior of individual households, firms and industries are studying _____
(a) microeconomics (b) macroeconomics
(c) nanoeconomics (d) neo economics

46. Reasoning proceeds from particular to general under _____
(a) deductive method (b) inductive method
(c) conclusive method (d) none of the above

47. A normative economics statement is _____
(a) the federal minimum wages should be raised to \$4.50 per hour
(b) economic is a social science that studies human behavior
(c) economics is not a social science that studies human behavior
(d) the united states spends a \$ 1 trillion on national defence

48. Which one of the following is NOT a feature of mixed economy?
(a) market forces deciding investment and consumption
(b) reservation of certain areas for public sector investment
(c) emphasis on social legislation
(d) strong anti-monopoly legislation

49. Opportunity costs are result of _____
(a) scarcity
(b) overproduction
(c) technology obsolescence
(d) abundance of resources

50. The aim of an entrepreneur is to earn as much profit as possible. The entrepreneur belongs to _____

(a) socialist economy (b) capitalist economy
(c) mixed economy (d) all of the above

51. In which type of economy do consumers and producers make their choices base on the market forces of demand and supply?

(a) open economy (b) controlled economy
(c) command economy (d) market economy

52. Monopoly of state on production and investment is feature of _____

(a) Mixed Economy (b) Socialist Economy
(c) Capitalist Economy (d) none of the above

53. _____ is also known as price theory

(a) microeconomics (b) macroeconomics
(c) both of above (d) none of above

54. Which of the following statements regarding market economy is not true?

(a) price plays a major role in a market economy
(b) the government controls production and distribution of goods
(c) consumers choose the goods they want
(d) efficiency is achieved through the profit motive

55. Scarcity definition of Economics is given by –

(a) Alfred Marshall (b) Samuelson
(c) Robinson (d) Adam Smith

56. The definition “Science which deals with wealth of Nation” was given by

(a) Alfred Marshall (b) A C Pigou (c) Adam Smith (d) J B Say

57. Which of the following is not of the features of capitalist economy?

(a) Right of private property (b) Freedom of choice by the consumers
(c) No profit, No Loss motive. (d) Competition

58. There is need of economic study, because –

(a) The resources are limited
(b) The wants are unlimited
(c) The resources are unlimited
(d) Both a and b

59. The benefit of economic study is –

(a) It ensure that all problems will be appropriately tackled
(b) It helps in identifying problems
(c) It enable to examine a problem in its right perspective
(d) It gives exact solutions to every problem

60. The managerial economics –

- (a) Is Applied Economics that fills the gap between economic theory and business practice
- (b) It is a theory concept
- (c) Trains managers how to behave in recession
- (d) Provides the tools which explain various concepts.

61. Which of the following statements is correct?

- (a) Micro economics is important for study of a particular household and a particular firm
- (b) Macro economics is important for study of economic conditions of a country
- (c) None of the above
- (d) Both a and b

62. Mr. Satish hired a business consultant to guide him for growth of his business. The consultant visited him factory and suggested some changes with respect to staff appointment, loan availability and so on. Which approach is that consultant using?

(a) Micro economics	(b) Macro economics
(c) None of the above	(d) Both a and b

63. Profit motive is a merit of

(a) Socialism	(b) Capitalism
(c) Mixed economy	(d) None of the above

64. _____ is also called as command economy

(a) Socialist	(b) Capitalist
(c) Mixed economy	(d) None of the above

Answer Key

1.	d	2.	d	3.	b	4.	a	5.	d
6.	a	7.	b	8.	a	9.	a	10.	b
11.	d	12.	d	13.	d	14.	a	15.	d
16.	c	17.	c	18.	b	19.	d	20.	c
21.	b	22.	c	23.	d	24.	a	25.	d
26.	c	27.	d	28.	b	29.	b	30.	b
31.	b	32.	b	33.	b	34.	a	35.	c
36.	b	37.	d	38.	c	39.	d	40.	a
41.	a	42.	b	43.	d	44.	a	45.	a
46.	b	47.	a	48.	d	49.	a	50.	b
51.	d	52.	b	53.	a	54.	b	55.	c
56.	c	57.	c	58.	d	59.	c	60.	a
61.	d	62.	a	63.	b	64.	a		

UNIT 1

MULTIPLE CHOICE QUESTIONS

1. Demand for the commodity refers to.
 - a. Desire backed by the ability to pay for the commodity.
 - b. Need for the commodity and willingness to pay for it.
 - c. The quantity demanded of that commodity at a certain price.
 - d. The quantity of the commodity demanded at a certain price during any particular period of time.

2. Contraction of the demand is the result of:
 - a. Decrease in the number of consumers.
 - b. Increase in the price of the good concerned.
 - c. Increase in the prices of other goods.
 - d. Decrease in the income of purchasers.

3. All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
 - a. The preference of the individual.
 - b. His monetary income
 - c. Price of the commodity
 - d. Price of the related goods

4. Which of the following pairs of goods is an example of substitutes?
 - a. Tea and sugar.
 - b. Tea and coffee
 - c. Pen and ink.
 - d. Shirt and trousers.

5. The law of demand, assuming other things to remain constant, establishes the relationship between.
 - a. Income of the consumer and the quantity of a good demanded by him.
 - b. Price of a good and the quantity demanded.
 - c. Price of a good and the demand for its substitute.
 - d. Quantity demanded of a good and the relative prices of its complementary goods.

6. Suppose the price of the Pepsi increase, we will expect the demand curve of Coca Cola to:
 - a. Shift towards left since these are substitutes.
 - b. Shift towards right since these are substitutes.
 - c. Remain at the same level.
 - d. None of the above.

7. All of the following are determinants of demand except:

a. Tastes and preferences.	b. Quantity supplied.
c. Income of the consumer.	d. Price of related goods.

8. A movement along the demand curve for soft drinks is best described as:

a. An increase in demand.	b. A decrease in demand.
c. A change in quantity demanded.	d. A change in demand.

9. If the price of the Pepsi decreases relative to the price of Coke and 7-UP the demand for:

- a. Coke will decrease.
- b. 7-Up will decrease.
- c. Coke and 7-Up will increase.
- d. Coke and 7-Up will decrease.

10. What will happen in the rice market if the buyers are expecting higher rice prices in the near future?

- a. The demand for rice will increase.
- b. The demand for rice will decrease.
- c. The demand for rice will be unaffected.
- d. None of the above

11. If case of Giffen goods, the demand curve will be:

- a. Horizontal
- b. Downward-sloping to the right.
- c. Vertical
- d. Upward-sloping to the right.

12. Conspicuous goods also known as.

- a. Prestige goods.
- b. Snob goods.
- c. Veblen goods.
- d. All of the above.

13. Demand is the

- a. The desire for a commodity given its price and those of related commodities.
- b. The entire relationship between the quantity demanded and the price of a good other things remaining the same.
- c. Willingness to pay for a good if income is larger enough.
- d. Ability to pay for a good.

14. If, as people's income increases, the quantity demanded of good decreases, the good is called.

- a. A substitute.
- b. A normal good.
- c. An inferior good.
- d. A complement.

15. The price of tomatoes increases and people buy tomato puree. You infer that tomatoes puree and tomatoes are:

- a. Normal goods.
- b. Complements.
- c. Substitute goods.
- d. None of these.

16. Chicken and fish are substitutes. If the price of the chicken increases, the demand for fish will:

- a. Increase or decrease but the demand curve for chicken will not change.
- b. Increase and the demand curve for fish will shift right words.
- c. Not change but there will be a movement along the demand curve for fish.
- d. Decrease and demand curve for fish will shift leftwards.

17. Potatoes chips and popcorn are substitutes. A rise in the price of potato chips will _____ the demand for the popcorn and the quantity of popcorn will _____

- a. Increase; increase
- b. Increase; decrease.
- c. Decrease; decrease.
- d. Increase; decrease.

18. If the price of Orange juice increases, the demand for Apple Juice will _____

- a. Increase.
- b. Decrease.
- c. Remain the same.
- d. Become negative.

19. When total demand for a commodity whose price has fallen increases, it is due to:

- Income effect.
- Substitution effect.
- Complementary effect.
- Price effect.

20. With a fall in the price of a commodity.

- Consumer's real income increases.
- Consumer's real income decreases.
- There is no change in the real income of the consumer.
- None of the above.

21. With the increase in the price of diamond, the quantity demanded also increases. This is because it is

- Substitution good.
- Complementary good.
- Conspicuous good.
- None of the above

22. Which example of a good that exhibit direct price-demand relationship is.

- Giffen goods.
- Complementary goods.
- Substitution goods.
- None of the above.

23. In Economics, when demand for a commodity increases with a fall in its price it is known as:

- Contraction of demand.
- Expansion of demand.
- No change in demand.
- None of the above.

24. At higher prices demand more of certain goods not for their worth but for their prestige value- This is called .

- Veblen effect.
- Giffens paradox.
- Speculative effect.
- None of the above.

25. In the case of straight line demand curve meeting the two axes, the price-elasticity of demand at mid-point of the line would be:

- 0
- 1
- 1.5
- 2

26. Identify the co-efficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price.

- Equal to one
- Greater than one.
- Smaller than one.
- Zero.

27. If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:

- Remain the same.
- Increase.
- Decrease.
- Any of these.

28. If regardless of changes in its price, the quantity demanded of goods remains unchanged, then the demand curve for the goods will be:

- Horizontal.
- Vertical.
- Positively sloped.
- Negatively sloped.

29. The price of hot dogs increase by 22% and the quantity of hot dogs demanded falls by 25%. This indicates that the demand for the hot dogs is:

- Elastic.
- Inelastic.
- Unitarily elastic.
- Perfectly elastic.

30. Given the following four possibilities, which one results in an increase in total consumer expenditure.

- a. Demand is unitary elastic and price falls.
- b. Demand is elastic and price rises.
- c. Demand is inelastic and price falls.
- d. Demand is inelastic and price rises.

31. Suppose the price of movies seen at a theatre rises from Rs. 120 per person to Rs. 200 per person. The theatre manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the price elasticity of demand for movies?

- (a) .5
- (b) .8
- (c) 1.0
- (d) 1.2

32. Suppose a department store has a sale on its silverware. If the price of a plate – setting is reduced from Rs. 300 to Rs. 200 and the quantity demanded increases from 3,000 plate- setting to 5,000 plate –settings, what is the price elasticity of demand for silverware?

- (a) .8
- (b) 1.0
- (c) 1.25
- (d) 1.50

33. If the local pizzeria raises the price of a medium pizza from Rs.60 to Rs. 100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is:

- a. 67
- b. 1.5
- c. 2.0
- d. 3.0

34. Points elasticity is useful for which of the following situations?

- a. The bookstore is considering doubling the price of notebooks.
- b. A restaurant is considering lowering the price of its most expensive dishes by 50 percent.
- c. An auto producer is interested in determining the response of consumers to the price of cars being lowered by Rs.100
- d. None of the above

35. A decrease in price will result in an increase in total revenue if:

- a. The percentage change in quantity demanded is less than the percentage change in price.
- b. The percentage change in quantity demanded is greater than the percentage change in price.
- c. Demand is inelastic.
- d. The consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.

36. An increase in price will result in an increase in total revenue if :

- a) The percentage change in quantity demanded is less than the percentage change in price.
- b) The percentage change in quantity demanded is greater than the percentage change in price.
- c) Demand is elastic.
- d) The consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low.

37. The price of the commodity decreases from Rs. 6 to Rs.4 and the quantity demanded of the goods increases from 10 units to 15 units, find the coefficient of price elasticity.

- a. 1.5
- b. 2.5
- c. -1.5
- d. 0.5

ANSWERS:

1.	d	2.	b	3.	c	4.	b	5.	b	6.	b
7.	b	8.	c	9.	d	10.	c	11.	a	12.	d
13.	b	14.	b	15.	c	16.	c	17.	b	18.	a
19.	a	20.	d	21.	c	22.	a	23.	b	24.	a
25.	b	26.	c	27.	b	28.	b	29.	b	30.	b
31.	c	32.	c	33.	b	34.	b	35.	b	36.	c
37.	d	38.	a	39.	a	40.	d				

UNIT 2

1. Identify the factor which generally keeps the price-elasticity of demand for a good low:
 - a. Variety of uses for that good.
 - b. Very low price of a commodity.
 - c. Close substitutes for that good.
 - d. High proportion of the consumer's income spent on it.

2. In the case of an inferior good, the income elasticity of demand is:
 - a. Positive.
 - b. Zero.
 - c. Negative.
 - d. Infinite.

3. If a good is a luxury, its income elasticity of demand is:
 - a. Positive and less than 1.
 - b. Negative but greater than -1.
 - c. Positive and greater than 1.
 - d. Zero.

4. If the quantity demanded of mutton increases by 5 % when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is.
 - a. - 0.25
 - b. 0.25
 - c. - 4
 - d. 4

5. When the numerical value of cross elasticity between two goods is very high, it means
 - a) The goods are perfect complements and therefore have to be used together.
 - b) The goods are perfect substitutes and can be used with ease in place of one another.
 - c) There is high degree of substitutability between the goods.
 - d) The goods are neutral and therefore cannot be considered as substitutes.

6. If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?
 - a. Quantity demanded will fall by a relatively large amount.
 - b. Quantity demanded will fall by a relatively small amount.
 - c. Quantity demanded will rise in the short run, but fall in the long run.
 - d. Quantity demanded will fall in the short run, but rise in the long run.

7. Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
 - a. Large fall in quantity demanded.
 - b. Large fall in demand
 - c. Small fall in quantity demanded
 - d. Small fall in demand.

8. Demand for a good will tend to be more elastic if it exhibits which of the following characteristics?
 - a. It represents a small part of the consumer's income.
 - b. The good has many substitutes available.
 - c. It is a necessity (as opposed to luxury)
 - d. There is little time for the consumer to adjust to the price change.

9. Demand for a good will tends to be more inelastic if it exhibits which of the following characteristic.

- The good has many substitutes.
- The good is a luxury (as opposed to a necessity)
- The good is a small part of the consumer's income.
- There is a great deal of time for the consumer to adjust to the change in prices.

10. Suppose a consumer's income increases from Rs.30,000 to Rs.36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30n CDs. What is the consumer's income elastic of demand for CDs?

- 0.5
- 1.0
- 1.5
- 2.0

11. The quantity purchased remains constant irrespective of the change in income. This is known as

- Negative income elasticity of demand.
- Income elasticity of demand is less than one.
- Zero income elasticity of demand.
- Income elasticity of demand is greater than one.

12. As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means:

- Income elasticity of demand is less than one.
- Negative income elasticity of demand.
- Zero income elasticity of demand.
- Unitary income elasticity of demand.

13. When income increases the money spent on necessities of life may not increase in the same proportion. This means:

- Income elasticity of demand is zero.
- Income elasticity of demand is one.
- Income elasticity of demand is greater than one.
- Income elasticity of demand is less than one.

14. The luxury goods like Jewellery and fancy articles will have

- Low income elasticity of demand.
- High income elasticity of demand.
- Zero income elasticity of demand.
- None of the above.

15. A good which cannot be consumed more than one is known as:

- Durable good
- Non-durable good.
- Producer good.
- None of the above.

16. Which of the following statements about price elasticity of demand is correct?

- Price elasticity of demand is a measure of how much the quantity demanded of a good responds to change in the price of that good.
- Price elasticity of demand is computed as the percentage change in quantity demanded divided by the percentage change in price.
- Price elasticity of demand in the long run would be different from that of the short run.
- All of the above.

17. The cross elasticity between Rye bread and Whole Wheat bread is expected to be:
a. Positive. b. Negative. c. Zero. d. Can't say.

18. The income elasticity of tomatoes is 0.25, it means tomatoes are:
a. Inferior goods. b. Luxury goods. c. Normal goods. d. Can't say.

19. The cross elasticity between personal computer and soft ware's is:
a. Positive. b. Negative. c. Zero. d. One.

20. The cross elasticity between Bread and DVDs is:
a. Positive. b. Negative. c. Zero. d. One.

21. Which of the following statements is correct?
a. With the help of statistical tools, the demand can be forecasted accurately.
b. The more the number of substitutes of a commodity, more elastic is the demand.
c. Demand for the butter is perfectly elastic.
d. Gold jewellery will have negative income elasticity.

22. Suppose the income elasticity of education in private school in India is 1.6. What does this indicate?
a. Private school education is a luxury.
b. Private school education is a necessity.
c. Private school education is an inferior commodity.
d. We should have more private schools.

23. Suppose potatoes have (-) 0.4 as income elasticity. We can say from the data given that:
a. Potatoes are inferior goods.
b. Potatoes are superior goods.
c. Potatoes are necessities.
d. There is a need to increase the income of consumers so that they can purchase potatoes.

24. Total utility is maximum when:
a. Marginal utility is zero. b. Marginal utility is at its highest point.
c. Marginal utility is negative. d. None of the above.

25. The second glass of lemonade gives lesser satisfaction to a thirsty boy. This is clear case of
a. Law of demand b. Law of diminishing returns
c. Law of diminishing utility d. Law of supply

26. By consumer surplus, economist mean
a. The area inside the budget line.
b. The area between the average revenue and marginal revenue curves.
c. The difference between the maximum amounts a person is willing to pay for a goods and its market price.
d. None of the above.

27. When the economist speak of the utility of a certain good, they are referring to

- The demand for the goods.
- The usefulness of the goods in consumption.
- The expected satisfaction derived from consuming the goods.
- The rate at which consumers are willing to exchange one good for another.

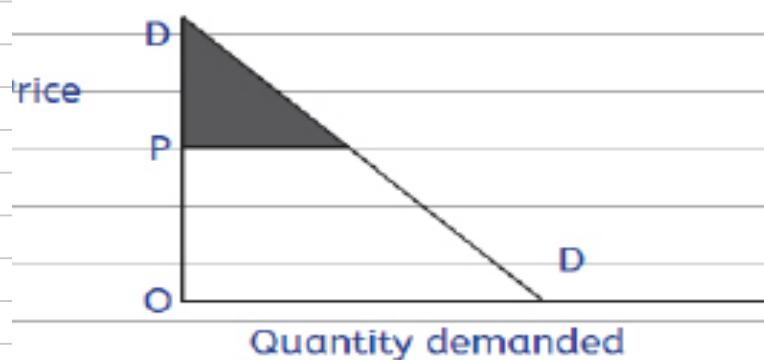
28. Comforts lies between.

- Inferior goods and necessities.
- Luxuries and inferior goods.
- Necessaries and luxuries.
- None of the above.

29.. The aim of the consumer in allocating his income is to _____ .

- Maximize his total utility.
- Maximize his marginal utility.
- To buy the goods he wants most whatever the price.
- To buy the goods which he expects to be short in supply.

30. In the diagram given below, the shaded portion represents.



- Prices above which there is no demand for the commodity.
- Monopoly price of the commodity.
- Consumer surplus.
- None of the above.

ANSWERS: pending

1.	b	2.	b	3.	c	4.	c	5.	b	6.	b
7.	a	8.	b	9.	d	10.	b	11.	c	12.	c
13.	d	14.	b	15.	a	16.	c	17.	b	18.	b
19.	a	20.	c	21.	b	22.	c	23.	b	24.	d
25.	b	26.	b	27.	c	28.	d	29.	a	30.	a
31.	c	32.	b	33.	b	34.	c	35.	b	36.	a
37.	a	38.	a	39.	c	40.	c	41.	c	42.	c
43.	a	44.	c								

UNIT 3

1. Which of the following statements about price elasticity of supply is correct?
 - a. Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good.
 - b. Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price.
 - c. Price elasticity of supply in the long run would be different from that of the short run.
 - d. All the above
2. A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
 - a. Zero.
 - b. Infinity.
 - c. Equal to one.
 - d. Greater than zero but less than infinity.
3. The supply of goods refers to:
 - a. Actual production of the goods.
 - b. Total existing stock of the goods.
 - c. Stock available for sale.
 - d. Amount of the goods offered for sale of a particular price unit of time.
4. An increase in the supply of a good is caused by:
 - a. Improvements in its technology.
 - b. Fall in the prices of other goods.
 - c. Fall in the prices of factors of production.
 - d. All of the above.
5. Elasticity of supply refers to the degree of responsiveness of supply of a good to change in its:
 - a. Demand.
 - b. Price.
 - c. Cost of production.
 - d. State of technology.
6. A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:
 - a. Zero.
 - b. Infinite.
 - c. Equal to one.
 - d. Greater than zero but less than one.
7. Contraction of the supply is the result of:
 - a. Decrease in the number of producers.
 - b. Decrease in the price of the good concerned.
 - c. Increase in the prices of other goods.
 - d. Decrease in the outlay of sellers.
8. An increase in the demand for computers, other things remaining the same. .
 - a. Increase the number of computers bought.
 - b. Decrease the price but increase the number of computers bought.
 - c. Increase the price of computers.
 - d. Increase the price and number of computers bought.

9. The quantity supplied of a good or service is the amount that.

- Is actually bought during a given time period at a given place.
- Producer's wish they could sell at a higher price.
- Producer's plan to sell during a given time period at a given price.
- People are willing to buy during a given time period at a given place.

10. Supply is the

- Limited resources that are available with the seller.
- Cost of producing a good.
- Entire relationship between the quantity supplied and the price of good.
- Willingness to produce a good if the technology to produce it becomes.

11. In the book market, the supply of books will decrease if any of the following occurs except.

- A decrease in the number of book publishers.
- A decrease in the price of the book.
- An increase in the future expected price of the book.
- An increase in the price of paper used.

12. If the price of computers increases by 10% and supply increases by 25%, the elasticity of supply is

- 2.5
- 0.4
- (-2.5)
- (-0.4)

13. An increase in the number of sellers of bikes will increase the.

- The price of a bike
- Demand for bikes.
- The supply of bikes.
- Demand for the helmets.

14. If the supply of bottled water decreases, other things remaining the same, the equilibrium price _____ and the equilibrium quantity _____.

- Increase; decrease.
- decrease; Increase
- Decrease; decrease.
- Increase; Increase

15. A decrease in the demand for cameras, other things remaining the same will.

- Increase the number of cameras bought.
- Decrease the price but increase the number of cameras bought.
- Increase the price of cameras.
- Decrease the price and decrease in the number of cameras bought.

16. If good growing conditions increase the supply of strawberries and hot weather increase the demand for strawberries, the quantity of strawberries bought.

- Increases and the price might rise, fall or not change.
- Does not change but the price rises.
- Does not change but the price falls.
- Increases and the price rises.

17. In a very short period, the supply.

- a. Can be changed.
- b. Cannot be changed.
- c. Can be increased.
- d. None of the above.

18. When supply curve moves to the left, it means.

- a. Smaller supply at a given price.
- b. Larger supply at a given price.
- c. Constant supply at a lower price.
- d. None of the above

19. When the supply curve moves to right, it means.

- a. Supply increase.
- b. Supply decrease.
- c. Supply remains constant.
- d. None of the above.

20. The elasticity of supply is defined as the.

- a. Responsiveness of the quantity supplied of a good to a change in its price.
- b. Responsiveness of the quantity supplied of a good without change in its price.
- c. Responsiveness of the quantity demanded of a good to change in its price.
- d. Responsiveness of the quantity demanded of a good without change in its price.

21. Elasticity of supply is measured by dividing the percentage change in quantity supplied of a good _____.

- a. Percentage change in income.
- b. Percentage change in quantity demanded of goods.
- c. Percentage change in price.
- d. Percentage change in taste and preference.

22. Elasticity of supply is zero means .

- a. Perfect inelastic supply.
- b. Perfectly elastic supply.
- c. Imperfectly elastic demand.
- d. None of the above.

23. Elasticity of supply is greater than one when.

- a. Proportionate change in quantity supplied is more than the proportionate change in price.
- b. Proportionate change in price is greater than the Proportionate change in quantity supplied.
- c. Change in price and quantity supplied are equal.
- d. None of the above.

24. If the quantity supplied is exactly equal to the relative change in price then the elasticity of supply is

- a. Less than one.
- b. Greater than one.
- c. One.
- d. None of the above.

25. The supply function is given as $Q = -100 + 10P$. Find the elasticity using point method, when price is Rs. 15.

- a. 4
- b. -3
- c. -5
- d. 3

26. If the percentage change in supply is less than the percentage change in price is called
a. Unit elasticity of supply. b. Perfectly elastic.
c. More elastic supply. d. Inelastic supply.

27. The supply curve shifts to the right because of _____
a. Improved technology. b. Increased price of factors of production.
c. Increased excise duty. d. All of the above.

28. Which of the following statements is correct?
a. When the price falls the quantity demanded falls.
b. Seasonal changes do not affect the supply of a commodity.
c. Taxes and subsidies do not influence the supply of the commodity.
d. With lower cost, it is profitable to supply more of the commodity.

29. If the demand is more than supply, then the pressure on price will be.
a. Upward. b. Downward. c. Constant. d. None of the above.

30. The supply curve for perishable commodities is _____.
a. Elastic b. Inelastic c. Perfectly elastic d. Perfectly inelastic.

31. Supply is a _____ concept.
a. Stock. b. Flow and stock. c. Flow. d. None of the above.

32. Which one is not an assumption of the theory of demand based on analysis of indifference curves?
a. Given scale a preferences as between different combinations of two goods.
b. Diminishing marginal rate of substitution.
c. Constant marginal utility of money.
d. Consumers would always prefer more of a particular good to less of it, other things remaining the same.

33. The consumer is in equilibrium at a point where the budget line:
a. Is above an indifference curve.
b. Is below an indifference curve.
c. Is tangent to an indifference curve?
d. Cuts an indifference curve.

34. An indifference curve slopes down towards right since more of one commodity and less of another result in:
a. Same level of satisfaction. b. Greater satisfaction.
c. Maximum satisfaction. d. Any of the above.

35. Which of the following statement is incorrect?
a. An indifference curve must be downward-sloping to the right.
b. Convexity of a curve implies that the slope of the curve diminishes as one move from left to right.
c. The income elasticity for inferior goods to a consumer is positive.

d. The total effect of a change in the price of a good on its quantity demanded is called the price effect.

36. Which of the following is a property of indifference curve?

- It is convex to the origin.
- The marginal rate of substitution is constant as you move along an indifference curve.
- Marginal utility is constant as you move along an indifference curve.
- Total utility is greatest where the 45 degree line cuts the indifference curve.

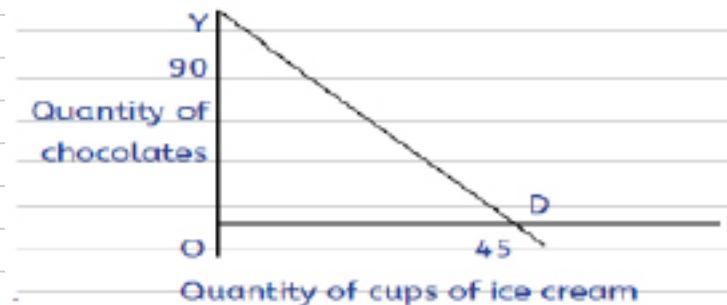
37. A relative price is.

- Price expressed in terms of money.
- What you get paid for babysitting your cousin.
- The ratio of one money price to another.
- None of the above.

38. A point below the budget line of a consumer.

- Represents a combination of goods which costs the whole of consumer's income.
- Represents a combination of goods which costs less than the consumer's income.
- Represents a combination of goods which is unattainable to the consumer given his/her money income.
- Willingness to pay for a good if income is larger enough.

39. The figure below shows the budget constraint of a consumer with an income of Rs.900/- to spend on two commodities, namely ice cream and chocolates.



The prices of these two commodities respectively are:

- `10 and `20.
- `20 and `10.
- `10 and `5.
- Any of the above.

Answers:

1.	d	2.	a	3.	d	4.	d	5.	b	6.	b
7.	b	8.	d	9.	c	10.	c	11.	b	12.	a
13.	c	14.	a	15.	d	16.	a	17.	b	18.	a
19.	a	20.	a	21.	c	22.	a	23.	a	24.	c
25.	d	26.	d	27.	a	28.	d	29.	a	30.	d
31.	a	32.	c	33.	c	34.	a	35.	c	36.	a
37.	c	38.	b	39.	b						

UNIT 1

1. Which of the following is considered production in Economics?
 - a. Tilling of soil.
 - b. Singing a song before friends.
 - c. Preventing a child from falling into a manhole on the road.
 - d. Painting a picture for pleasure.
2. Which of the following is not a characteristic of land?
 - a. Its supply of the economy is limited.
 - b. It is immobile.
 - c. Its usefulness depends on human efforts.
 - d. It is produced by our forefathers.
3. Which of the following statements is true?
 - a. Accumulation of capital depends solely on income of individuals.
 - b. Savings can be influenced by government policies.
 - c. External economies go with size and internal economies with location.
 - d. The supply curve of the labour is an upward sloping curve.
4. In the production of wheat, all of the following are variable factors that are used by the farmer except:
 - a. The seed and fertilizers used when the crop is planted.
 - b. The field that has been cleared of trees and in which the crop is planted.
 - c. The factors used by the farmer in planting and cultivating not only wheat but also corn and barley.
 - d. The number of hours that the farmer spends in cultivating the wheat fields.
5. The short run, as economists use the phrase, is characterized by:
 - a. At least one fixed factor of production and firms neither leaving nor entering the industry.
 - b. Generally a period which is shorter than one year.
 - c. All factors of production are fixed and no variable inputs.
 - d. All inputs are variable and production is done in less than one year.
6. To economists, the main difference between the short run and the long run is that:
 - a. In the short run all inputs are fixed, while in the long run all inputs are variable.
 - b. In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
 - c. In the short run at least one of the firm's input level is fixed.
 - d. In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.
7. Which of the following is the best definition of "production function"?
 - a. The relationship between market price and quantity supplied.
 - b. The relationship between the firm's total revenue and the cost of production.
 - c. The relationship between the quantities of inputs needed to produce a given level of output.
 - d. The relationship between the quantities of inputs and the firm's marginal cost of production.
8. Which of the following statements is true?
 - a. The services of a doctor are considered production.
 - b. Man can create matter.
 - c. The services of a housewife are considered production.

d. When a man creates a table, he creates matter.

9. Which of the following is a function of an entrepreneur?

- a. Initiating a business enterprises
- b. Risk bearing.
- c. Innovating.
- d. All of the above.

10. The production function is a relationship between a given combination of inputs and:

- a. Another combination that yields the same output.
- b. The highest resulting output.
- c. The increased in the output generated by one-unit increase in one output.
- d. All levels of output that can be generated by those inputs.

11. What is a production function?

- a. Technical relationship between physical inputs and physical output.
- b. Relationship between fixed factors of production and variable factors of production.
- c. Relationship between fixed factors of production and utility created by it.
- d. Relationship between quantity of output produced and time taken to produce the output.

12. The production function:

- a. Is the relationship between the quantity of inputs used and the resulting quantity of product..
- b. Tells us the maximum attainable output from a given combination of inputs.
- c. Expresses the technological relationship between inputs and output of a product.
- d. All of the above.

13. The most important function of an entrepreneur is to _____.

- a. Innovate. b. Bear the sense of responsibility. c. Finance. d. Earn profit.

14. "Production" may be defined as an act of_____

- a. creating utility b. earning profit c. destroying utility d. providing services

Answer Key

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

UNIT 2

1. Identify the correct statement.
 - a. The average product is at its maximum when marginal product is equal to average product.
 - b. The law of increasing returns to scale refers to the effect of changes in factor proportions.
 - c. Economies of scale arising only because of indivisibilities of factor proportions.
 - d. Internal Economies of scale can be accrued when industry expands beyond optimum.

2. The marginal product of a variable input is best described as:
 - a. Total product divided by the number of units of variable input.
 - b. The additional output resulting from a one unit increase in the variable input.
 - c. The additional output resulting from a one unit increase in both the variable and fixed inputs.
 - d. The ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.

3. Diminishing marginal returns implies:
 - a. Decreasing average variable costs.
 - b. Decreasing marginal costs.
 - c. Increasing marginal costs.
 - d. Decreasing average fixed costs.

4. The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationship except:
 - a. When total product is rising, average and marginal product may be either rising or falling.
 - b. When marginal product is negative, total product and average product are falling.
 - c. When average product is at a maximum, marginal product equals average product, and total product is rising.
 - d. When marginal product is at a maximum, average product equals marginal product, and total product is rising.

5. The “law of diminishing returns” applied to:
 - a. The short run, but not the long run.
 - b. The long run, but not the short run.
 - c. Both the short run and the long run.
 - d. Neither the short run nor the long run.

6. Diminishing returns occur:
 - a. When units of a variable input are added to a fixed input and total product falls.
 - b. When units of a variable input are added to a fixed input and marginal product falls.
 - c. When the size of the plant is increased in the long run.
 - d. When the quantity of the fixed input is increased and returns to the variable input falls.

Use of the following information to answer questions 14 – 16

Hours of labour	Total output	Marginal Product
0	-	-
1	100	100
2	180	80
3	240	-

7. What is the total output when 2 hours of labour are employed?
a. 80 b. 100 c. 180 d. 200

8. What is the marginal product of the third hour of labour?
a. 60 b. 80 c. 100 d. 240

9. What is the average product of the first three hours of labour?
a. 60 b. 80 c. 100 d. 240

10. Which cost increase continuously with the increase in production?
a. Average cost. b. Marginal cost. c. Fixed cost. d. Variable cost.

11. Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is the variable cost.
a. Cost of raw materials. b. Cost of equipment.
c. Interest payment on past borrowings. d. Payment on rent on building.

12. If a firm moves from one point on a production isoquant to another, which of the following will not happen.
a. A change in the ratio in which the inputs are combined to produce output.
b. A change in the ratio of marginal product of the inputs.
c. A change in the marginal rate of technical substitution.
d. A change in the level of output.

13. Which of the following is an example of “explicit cost”?
a. The wages a proprietor could have made by working as an employee of a large firm.
b. The income that could have been earned in alternative uses by the resources owned by the firm.
c. The payment of wages by the firm.
d. The normal profit earned by a firm.

14. Which of the following is an example of an “implicit cost”?
a. Interest that could have been earned on retained earnings used by the firm to finance expansion.
b. The payment of the rent by the firm for the building in which it is housed.
c. The interest payment made by the firm for funds borrowed from a bank.
d. The payment of wages by the firm

15. Which of the following is not a determinant of the firm’s cost function?
a. The production function. b. The price of labour.
c. Taxes. d. The price of the firm’s output.

16. Which of the following statements is correct concerning the relationship among the firm’s cost of functions?
a. $TC = TFC - TVC$. b. $TVC = TFC - TC$.
c. $TFC = TC - TVC$. d. $TC = TVC - TFC$.

17. Suppose output increases in the short run, Total cost will:

- Increase due to an increase in fixed costs only.
- Increase due to an increase in variable costs only.
- Increase due to an increase in both fixed and variable costs only.
- Decrease if the firm is in the region of diminishing returns.

18. In describing a given production technology, the short run is best described as lasting.

- Up to six months from now.
- Up to five years from now.
- As long as all inputs are fixed.
- As long as at least one input is fixed.

19. If decreasing returns to scale are present, then if all inputs are increased by 10% then:

- Output will also decreased by 10%.
- Output will also increase by 10%.
- Output will increased by less than 10%.
- Output will increase by more than 10%.

20. If the marginal product of labour is below the average product of labour, it must be true that:

- The marginal product of labour is negative.
- The marginal product of labour is zero.
- The average product of labour is falling.
- The average product of labour is negative.

21. The average product of labour is maximized when marginal product of labour:

- Equals the average product of labour.
- Equals zero.
- Is maximized.
- None of the above.

22. The law of variable proportion is drawn under all of the assumptions mentioned below except the assumption that:

- The technology is changing.
- There must be some inputs and not economically profitability in monetary terms.
- We consider only physical inputs and not economically profitability in monetary terms.
- The technology is given and stable.

23. Laws of production does not include_____

- Returns to scale.
- Law of diminishing returns to a factor.
- Law of variable proportions.
- Least cost combination of factors.

24. An ISO quant shows .

- All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.
- All the alternative combinations of two products among which a producer is indifferent because they yield the same profit.
- All the alternative combinations of two inputs that yield the same total product.
- Both (b) and (c).

25. The production process described below exhibits:

Number of workers	Output
0	0
1	23
2	40
3	50

- a. Constant marginal product of labour.
- b. Diminishing marginal product of labour.
- c. Increasing returns to scale.
- d. Increasing marginal product of labour.

26. Which of the following is a variable cost in the short run?

- a. Rent of the factory.
- b. Wages paid to the factory labour.
- c. Interest payments on borrowed financial capital.
- d. Payment on the lease for factory equipment.

27. In the short run, the firm's product curves show that.

- a. Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.
- b. When marginal product is equal to average product, average product is decreasing but at its highest.
- c. When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.
- d. In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.

28. A fixed input is defined as.

- a. That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
- b. That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
- c. That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
- d. That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.

29. Average product is defined as.

- a. Total product divided by the total cost.
- b. Total product divided by marginal product.
- c. Total product divided by the number of units of variable input.
- d. Marginal product divided by the number of units of variable input.

30. Which of the following statement is true?

- a. After the infection point of the production function, a greater use of the variable input induce a reduction in the marginal product.
- b. Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.

c. The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.
d. All of the above.

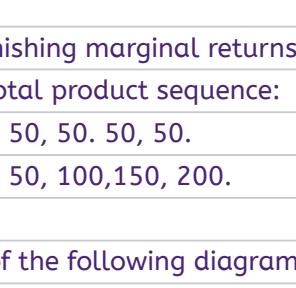
31. Marginal product, mathematically, is the slope of the
a. Total product curve. b. Average product curve.
c. Marginal product curve. d. Implicit product curve.

32. Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:
a. 50 b. 100
c. 150 d. 200

33. Which of the following statements is false in respect cost of a firm?
a. As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.
b. TFC continue to exist even when production is stopped in the short run, but they exist in the long run even when production is not stopped.
c. Total Fixed Cost (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with the production in the short run.
d. In the short run, a firm's fixed cost cannot be escaped even when production is stopped.

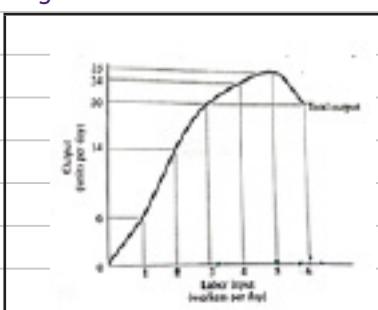
34. Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence:
a. 50, 50, 50, 50. b. 50, 110, 180, 260.
c. 50, 100, 150, 200. d. 50, 90, 120, 140.

35. Use of the following diagram to answer the question given below it.
The marginal physical product of the third unit of labour is _____, the MP of the _____ labour Negative is.



a. Six; fourth. b. Six; third. c. Six; fifth. d. Six; sixth

36. In the third of the three stages of production:
a. The marginal product curve has a positive slope.
b. The marginal product curve lies completely below the average product curve.
c. Total product increase.
d. Marginal product is positive.



a. Six; fourth. b. Six; third. c. Six; fifth. d. Six; sixth

37. Which of the following statement describes increasing return to scale?

- Doubling of all inputs used leads to doubling of the output.
- Increasing the inputs by 50% leads to a 25% increase in output.
- Increasing the inputs by $\frac{1}{4}$ leads to an increase in output of $\frac{1}{3}$
- None of the above.

38. Implicit costs can be defined as:

- Money payment made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.
- Money not paid out to the owners of the firm for the self-owned factors employed in a business and therefore not entered into books of accounts.
- Money payment which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.
- Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts.

39. Economic costs of production differ from accounting costs of production because:

- Economic costs include expenditures for hired resources while accounting costs do not.
- Accounting costs include opportunity costs which are deducted later to find paid out costs.
- Accounting costs include expenditures for hired resources while economic costs do not.
- Economic costs add the opportunity cost of a firm which uses its own resources.

40. Returns to scale will be said to be in operations when quantity of _____

- all inputs are changed
- all inputs are changed in already established proportion
- all inputs are not changed
- one inputs is changed while quantity of all other inputs remains same

41. In a production process, the input combination has 30 per cent of fixed assets, 40 per cent raw material and 10 per cent labour. The quantity of all other except fixed assets has been doubled. The production process would be subjected to _____

- law of variable proportions
- returns to the scale
- decreasing returns
- increasing returns

42. Of the following which one corresponds to fixed cost?

- payments for raw material
- labour costs
- transportation charges
- insurance premiums on a property

43. MC is given by _____

- the slope of the TVC curve
- the slope of the TVC curve but not by the slope of the TC curve
- the slope of the TC curve but not by the slope of the TVC curve
- either the slope of the TVC curve or the slope of the TC curve

44. Marginal cost is found with the help of change in_____

- total fixed cost
- total variable cost
- total explicit cost
- total implicit cost

45. In the long run,_____

- all factors can be used in different proportions
- management can be re-organized
- a firm can experience returns to scale
- all of these

46. The number of units of capital required in order to produce one unit of output is termed as_____

- capital output ratio
- input output ratio
- investment ratio
- capital input ratio

47. The cost of one thing in terms of the alternative given up is known as_____

- opportunity cost
- real cost
- actual cost
- deferred cost

48. opportunity costs are also known as_____

- spill-over costs
- money costs
- alternative costs
- external costs

49. Rakesh inherited 1 arc of land from his grandfather who paid ₹10,000 cash for the land back in 1951. Today, land area in the area sells for ₹ 2,00,000 per arc . What is the opportunity cost to Rakesh for keeping the land?

- nothing, since the land was inherited
- nothing, since the grandfather paid cash
- ₹ 10,000 since this is what is cost Rajesh's grandfather
- ₹ 2,00,000, since this is what Rakesh is giving up by keeping the land

50. When marginal product is zero, total product is_____

- maximum
- increasing
- decreasing
- negative

51. Suppose a firm produces 10 units of output and incurs Rs 30 per unit variable cost and Rs 5 in per unit fixed cost. In this case, total costs_____

- ₹ 300
- ₹ 35
- ₹ 305
- ₹ 350

52. When the average product is at its maximum the equity can be reached between_____

- the marginal product and total product
- the marginal product and average product
- the marginal product and primary product
- the marginal product and the final product

53. In short run, the law of variable proportion is also known as the_____

- law of increasing returns
- law of diminishing returns
- law of constant returns
- law of returns to scale

54. The law of variable proportions comes into being when_____

- a. there are only two variables factors
- b. there is a fixed factor and a variable factor
- c. all factors are variable
- d. variable factors yield less

55. In law of variables proportion in stage III the MP curve becomes negative because of_____

- a. fixed factor quantity exceeds variable factors
- b. variable factor quantity exceeds fixed factor
- c. both the factors are used at highest proportion
- d. none of the above

56. In case of short period _____ is variable

- a. Land
- b. Labour
- c. Capital
- d. Enterprise

57. A long run analysis of production is called_____

- a. economies of scale
- b. long period
- c. law of increasing return
- d. law of returns to scale

58. The marginal product curve is above to average product curve when the average product is_____

- a. decreasing
- b. increasing
- c. becomes constant
- d. none of the above

59. The point, which shows the maximum marginal product in the total product curve, represents_____

- a. least cost combination
- b. producer's equilibrium
- c. expansion path
- d. point of inflexion

60. In the short run analysis, $MP=0$ at the level in which_____

- a. marginal product is maximum
- b. average product is maximum
- c. total product is maximum
- d. total profit is maximum

61. The prime cost may be considered as_____

- a. variable cost
- b. fixed cost
- c. direct cost
- d. sunk cost

Answer Key

1.	a	2.	b	3.	c	4.	d	5.	a
6.	b	7.	c	8.	a	9.	b	10.	d
11.	a	12.	d	13.	c	14.	a	15.	d
16.	b	17.	d	18.	c	19.	c	20.	a
21.	c	22.	a	23.	d	24.	c	25.	b
26.	d	27.	b	28.	c	29.	d	30.	a
31.	b	32.	b	33.	b	34.	d	35.	d
36.	c	37.	b	38.	d	39.	b	40.	a
41.	b	42.	d	43.	d	44.	b	45.	c
46.	a	47.	a	48.	c	49.	d	50.	s
51.	d	52.	c	53.	b	54.	b	55.	b
56.	b	57.	d	58.	b	59.	d	60.	c
61.	a								

UNIT 3

- Which of the following cost curves is never 'U' shaped?
 - Average cost curve.
 - Marginal cost curve.
 - Average variable cost curve.
 - Average fixed cost curve.
- In the short run, when the output of a firm increases, its average fixed cost:
 - Increases.
 - Decreases.
 - Remain constant.
 - First declined and then rises.
- Which one of the following is also known as planning curve?
 - Long run average cost curve.
 - Short run average cost curve.
 - Average variable cost curve.
 - Average total cost curve.
- With which of the following is the concept of marginal cost closely related?
 - Variable cost.
 - Fixed cost.
 - Opportunity cost.
 - Economic cost.
- Which of the following statements is correct?
 - When the average cost is rising, the marginal cost must also be rising.
 - When the average cost is rising, the marginal cost must be falling.
 - When the average cost is rising, the marginal cost is above the average cost.
 - When the average cost is falling, the marginal cost must be rising.

Use the following data to answer the questions 27-29.

Output (O)	0	1	2	3	4	5	6
Total cost (TC)	₹ 240	₹ 330	₹ 410	₹ 480	₹ 540	₹ 610	₹ 690

- The average fixed cost of 2 units of output is:
 - ₹ 80
 - ₹ 85
 - ₹ 120
 - ₹ 205
- The marginal cost of the sixth unit of output is:
 - ₹ 133
 - ₹ 75
 - ₹ 80
 - ₹ 450

8. Diminishing marginal returns start to occur between units:

- 2 and 3
- 3 and 4
- 4 and 5
- 5 and 6

9. Marginal cost is defined as:

- The change in total cost due to a one unit change in output.
- Total cost divided by output.
- The change in output due to a one unit change in an input.
- Total product divided by the quantity of input.

10. Which of the following is true of the relationship between the marginal cost function and the average cost function?

- If MC is greater than ATC, then ATC is falling.
- The ATC curve intersects the MC curve at minimum MC.
- The MC curve intersects the ATC curve at minimum ATC.
- If MC is less than ATC, then ATC is increasing.

11. Which of the following statements is true of the relationship among the average cost functions?

- $ATC = AFC - AVC$.
- $AVC = AFC + ATC$.
- $AFC = ATC + AVC$.
- $AFC = ATC - AVC$.

12. Which of the following statements concerning the long-run average cost curve is false?

- It represents the least-cost input combination for producing each level of output.
- It is derived from a series of short-run average cost curves.
- The short run cost curve at the minimum point of the long run average cost curve represents the least-cost plant size for all levels of output.
- As output increases, the amount of capital employed by the firm increases along the curve.

13. The negatively-sloped (i.e. falling) part of the long run average cost curve is due to which of the following?

- Diseconomies of scale.
- Diminishing returns.
- The difficulties encountered in coordinating the many activities of a large firm.
- The increase in productivity that results from specialization.

14. The positively sloped (i.e. rising) part of the long run average cost curve is due to which of the following?

- Diseconomies of scale.
- Increasing returns.
- The firm being able to take advantage of large-scale production techniques as it expands its output.
- The increase in the productivity that results from specialization.

15. A firm's average total cost is Rs.300 at 5 units of output and Rs. 320 at 6 units of output. The marginal cost of producing the 6th unit is:

- ₹ 20
- ₹ 120
- ₹ 320
- ₹ 420

16. A firm producing 7 units of output has an average total cost of ₹150 and has to pay ₹ 350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?

a. ₹ 200 b. ₹ 50 c. ₹ 300 d. ₹100

17. A firm has a variable cost of Rs.1000 at 5 units of output . If fixed costs are Rs.400, what will be the average total cost at 5 units of output?

a. ₹ 280 b. ₹ 60 c. ₹ 120 d. ₹ 1400

18. A firm has a AFC of Rs.20 at 6 units of output. What will be at 4 units of output?

a. 60 b. 30 c. 40 d. 20

19. Economies of scale exist because as a firm increases in its size in the long run.

a. Labour and management can specialize in their activities more.
b. As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost.
c. The firm can afford to employ more sophisticated technology in production.
d. All of these.

20. The efficient scale of production is the quantity of output that minimizes.

a. Average fixed cost. b. Average total cost.
c. Average variable cost. d. Marginal cost.

21. When marginal costs are below average total costs.

a. Average fixed costs are rising. b. Average total costs are falling.
c. Average total costs are rising. d. Average total costs are minimized

22. A firm's long-run average total cost curve is.

a. Identical to its long-run marginal cost curve.
b. Also its long-run supply curve because it explains the relationship between price and quantity supplied
c. In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
d. Tangent to all the curves for short-run average total cost.

23. In the long run, if a very small factory were to expand its scale of production, it is likely that it would initially experience.

a. An increase in pollution level. b. Diseconomies of scale.
c. Economies of scale. d. Constant returns to scale.

24. A firm's long-run average total cost curve is:

a. Identical to its long-run marginal cost curve as all factors are variable.
b. Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run.
c. In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.

d. Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.

25. The marginal cost for a firm of producing the 9th unit of output is Rs.20. Average cost at same level of output is Rs.15. Which of the following must be true?

- Marginal cost and average cost are both falling.
- Marginal cost and average cost are both rising.
- Marginal cost is rising and average cost is falling.
- It is impossible to tell if either of the curves are rising or falling.

26. what is the possible reason why the average variable cost curve approaches the average total cost curve as output rises is:

- Fixed costs are falling while total costs are rising output.
- Total costs are rising and average costs are also rising.
- Marginal costs are above average variable costs as output rises.
- Average fixed costs are falling as output rises.

27. Marginal cost change due to changes in _____.

- Total cost.
- Average cost.
- Variable cost.
- Quantity of output.

28. Which of the following statements is correct?

- Fixed costs vary with change in output.
- If we add total variable cost and total fixed cost we get the average cost.
- Marginal cost is the result of total cost divided by number of units produced.
- Total cost is obtained by adding up the fixed cost and total variable cost.

29. Which of the following statements is incorrect?

- The LAC curve is also called the planning curve of a firm.
- Total revenue = price per unit X number of units sold.
- Opportunity cost is also called alternative cost.
- If total revenue is divided by the number of units sold we get marginal revenue.

30. Why the average fixed cost curve does not touch the output axis_____

- because AFC cannot be negative
- because AFC cannot be zero
- because AFC cannot be less than one
- none of these

31. Minimum marginal cost occurs at the output where_____

- the total product is at maximum
- the marginal product of the variable factor is at maximum
- the factors are combined in their best possible proportions
- the average product of the variable factors is at maximum

32. Average fixed cost _____

- remains the same whatever the level of output
- increases as output increases
- diminishes as output increases
- all of the above

33. The difference between the average total cost and average fixed cost shows _____

- normal profits
- implicit cost
- average variable cost
- opportunity cost

34. Which of the following curves is a rectangular hyperbola?

- ATC
- AFC
- AVC
- MC

35. Marginal cost curve always cuts the average cost curve _____

- from below on the falling portion of the AC curve
- from below on the rising portion of the AC curve
- from below on the minimum point of the AC curve
- from below on any point of the AC curve

36. When average cost is falling, marginal cost _____

- may also be falling
- may be rising
- may be rising or falling
- have no relation with average cost

37. When average cost is constant, marginal cost _____

- is equal to average cost
- may be constant
- may be rising
- may be falling

38. If the LAC curve falls as output expands, this fall is due to _____

- economic of scale
- the law of diminishing returns
- diseconomies of scale
- any of the above

39. Long run average cost curves are broadly _____

- U-shaped
- inverted U-shaped
- V-shaped
- L-shaped

40. Economies of scale means _____

- reduction in unit cost of production
- reduction in unit cost of distribution
- addition to the unit cost of production
- reduction in the total cost of production

41. Increasing returns to scale is not caused by _____

- technological advance
- specialization of labour
- marketing economies
- varying factors proportions

42. The average profit is equal to the difference between _____

- AC and TC
- AC and VC
- AC and AR
- AC and TR

43. In short run a firm would remain in business as long as which one of the following of costs is covered?

- a. total costs
- b. fixed costs
- c. variable costs
- d. constant costs

44. The vertical distance between TVC and TC is equal to _____

- a. MC
- b. AVC
- c. TFC
- d. none of these

45. An entrepreneur will stay in business in the long run as long as he meets _____

- a. his domestic expenditure
- b. all costs of production
- c. fixed costs of production
- d. variable costs of production

46. The MC curve cuts the AVC and ATC curves _____

- a. at the falling part of each
- b. at different points
- c. at their respective minimum point
- d. at the rising part of each

Answer Key

1.	d	2.	b	3.	a	4.	a	5.	c
6.	c	7.	c	8.	c	9.	a	10.	c
11.	d	12.	c	13.	d	14.	a	15.	d
16.	d	17.	a	18	b	19.	d	20.	b
21.	b	22.	d	23.	c	24.	d	25.	b
26	d	27.	c	28.	d	29.	d	30.	b
31.	b	32	c	33.	c	34.	b	35.	c
36.	c	37.	a	38.	a	39.	a	40.	a
41.	d	42	c	43.	c	44.	c	45.	d
46.	c								

MULTIPLE CHOICE QUESTIONS

UNIT 2

1. In the table below what will be equilibrium market price.

Price (₹)	Demand (tonnes per annum)	Supply (tonnes per annum)
1	1000	400
2	900	500
3	800	600
4	700	700
5	600	800
6	500	900
7	400	1000
8	300	1100

a. ₹ 2 b. ₹ 3 c. ₹ 4 d. ₹ 5

2. Assume that when price is ₹ 20, the quantity demanded is 9 units, and when price is ₹19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.

a. ₹ 20 b. ₹ 19 c. ₹ 10 d. ₹ 1

3. Assume that when price is Rs.20, the quantity demanded is 15 units, and when price is Rs.18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units.

a. ₹ 18 b. ₹ 16 c. ₹ 12 d. ₹ 28

4. Marginal revenue is equals to:

- a. The change in price divided by the change in output.
- b. The change in quantity divided by the change in price.
- c. The change in $P \times Q$ due to a one unit change in output.
- d. Price, but only if the firm is a price searcher.

5. Suppose that a sole proprietorship is earning total revenues of ₹ 100,000 and is incurring explicit costs of ₹ 75,000. If the owner could work for another company for ₹30,000 a year, we could conclude that:

- a. The firm is incurring an economic loss.
- b. Implicit costs are ₹25,000
- c. The total economic costs are ₹100,000.
- d. The individual is earning an economic profit of ₹25,000.

6. Which of the following statements is false?

- a. Economic costs include the opportunity costs of the resources owned by the firm.
- b. Accounting costs include only explicit costs..
- c. Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs.
- d. Accounting profit is equal to total revenue less implicit costs.

7. With a given supply curve, a decrease in demand causes.

- An overall decrease in price but an increase in equilibrium quantity.
- An overall increase in price but a decrease in equilibrium quantity.
- An overall decrease in price and a decrease in equilibrium quantity.
- No change in overall price but a reduction in equilibrium quantity.

8. It is assumed in economic theory that:

- Decision making within the firm is usually undertaken by the managers, but never by the owners.
- The ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organization.
- As the firm's size increases, so do its goals.
- The basic decision making unit of any firm is its owners.

9. Assume that consumer's income and the number of sellers in the market for good A both decreases. Based upon his information, we can conclude, with certainty, that the equilibrium.

- Price will increase.
- Price will decrease.
- Quantity will increase.
- Quantity will decrease.

10. If the supply increases in a greater proportion than demand.

- The new equilibrium price and quantity will be greater than the original equilibrium price and quantity.
- The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher.
- The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
- The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.

11. Assume that in the market for goods Z there is a simultaneous increase in demand and the quantity supplied. The result will be:

- An increase in equilibrium price and quantity.
- A decrease in equilibrium price and quantity.
- An increase in equilibrium quantity and uncertain effect on equilibrium price.
- A decrease in equilibrium price and increase in equilibrium quantity.

12. Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilization of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?

- Price will increase; quantity cannot be determined.
- Price will decrease; quantity cannot be determined.
- Quantity will increase; price cannot be determined.
- Quantity will decrease; price cannot be determined.

13. Which of the following is not a condition of perfect competition?

- A large number of firms.
- Perfect mobility of factors.
- Informative advertising to ensure that consumers have good information.
- Freedom of entry and exit into and out of the market.

14. Which of the following is not a characteristic of a perfectly competitive market?

- Large number of firms in the industry.
- Outputs of the firm are perfect substitutes for one another.
- Firms faced downward-sloping demand curves.
- Resources are very mobile.

15. In a very short period market:

- The supply is fixed.
- The demand is fixed.
- Demand and supply are fixed.
- None of the above.

16. Time element was conceived by.

- Adam Smith.
- Alfred Marshall.
- Pigou.
- Lionel Robinson.

17. Total revenue =

- Price X Quantity.
- Price X income.
- Income X Quantity.
- None of the above.

18. Average revenue is the revenue earned.

- Per unit of input.
- Per unit of output.
- Different units of input.
- Different units of output.

19. AR can be symbolically written as:

- MR/Q.
- Price X quantity.
- TR/Q.
- None of the above.

20. AR is also known as:

- Price.
- Income.
- Revenue.
- None of the above.

21. Marginal revenue can be defined as the change in total revenue resulting from the:

- Purchase of an additional unit of a commodity.
- Sales of an additional unit of a commodity.
- Sale of subsequent units of a product.
- None of the above.

22. When $e > 1$ then MR is.

- Zero.
- Negative.
- Positive.
- One.

23. When $e = 1$ then MR is .
a. Positive. b. Zero. c. One. d. Negative.

24. When $e < 1$ then MR is:
a. Negative. b. Zero. c. Positive. d. One.

25. In Economics, the term 'market' refers to a:
a. Place where buyer and seller bargain a product or service for a price.
b. Place where buyer does not bargain.
c. Place where seller does not bargain.
d. None of the above.

26. Generally perishable goods like butter, eggs, milk, vegetables etc., will have
a. Regional market. b. Local market.
c. National market. d. None of the above

27. Secular period is also known as
a. Very short period b. short period c. very long period d. long period

28. Stock exchange market is an example of
a. Unregulated market b. regulated market
c. spot market d. none of the above

29. The market for the ultimate consumers is known as
a. whole sale market b. regulated market
c. unregulated market d. retail market

30. The condition for the pure competition is
a. large number of buyer and seller, free entry and exist
b. homogeneous product
c. both (a) and (b)
d. Large number of buyer and seller, homogenous product, perfect knowledge about the product.

31. The marginal product of the variable factors is at maximum, where the marginal cost of the output is
a. at minimum b. at maximum c. at normal profit d. zero

32. If a seller realizes Rs 10,000 after selling 100 units and Rs 14,000 after selling 120 units. What is the marginal revenue here?
a. ₹ 4000 b. ₹ 450 c. ₹ 200 d. ₹ 100

33. The time period and elasticity of time are related
a. indirectly b. directly
c. in direct proportion d. none of the above

ANSWERS:

1.	c	2.	c	3.	c	4.	c	5.	a	6.	d
7.	c	8.	b	9.	d	10.	d	11.	c	12.	c
13.	c	14.	c	15.	a	16.	b	17.	a	18.	b
19.	c	20.	a	21.	b	22.	c	23.	b	24.	a
25.	a	26.	b	27.	c	28.	b	29.	d	30.	c
31.	a	32.	c	33.	c						

UNIT 2

- Suppose a firm is producing a level of output such that $MR > MC$, what should the firm do to maximize its profits.
 - The firm should do nothing.
 - The firm should hire less labour.
 - The firm should increase price.
 - The firm should increase output.
- Which of the following is not an essential condition of pure competition?
 - Large number of buyers and sellers.
 - Homogeneous product.
 - Freedom of entry.
 - Absence of transport cost.
- What is the shape of the demand curve faced by a firm under perfect competition?
 - Horizontal.
 - Vertical.
 - Positively sloped.
 - Negatively sloped.
- Which is the first order condition for the profit of a firm to be maximum?
 - $AC = MR$.
 - $MC = MR$.
 - $MR = AR$
 - $C = AR$.
- Which of the following is not a characteristic of a "price-taker"?
 - $TR = P \times Q$.
 - $AR = Price$.
 - Negatively – sloped demand curve.
 - Marginal revenue = Price.
- Monopoly may arise in a product market because.
 - A significantly important resource for the production of the commodity is owned by a single firm.
 - The government has given the firm patent right to produce the commodity.
 - The costs of production and economies of scale makes production by a single producer more efficient.
 - All of the above.
- Price-taking firms, i.e. firms that operate in a perfectly competitive market, are said to be "small" relative to the market. Which of the following best describes this smallness?
 - The individual firm must have fewer than 10 employees.
 - The individual firm faces a downward-sloping demand curve.
 - The individual firm has assets of less than Rs.20 lakhs.
 - The individual firm is unable to affect market price through its output decisions.

8. For a price-taking firm:

- Marginal revenue is less than price.
- Marginal revenue is equal to price.
- Marginal revenue is greater than price.
- The relationship between marginal revenue and price is inter determinate.

9. Average revenue curve is also known as:

- Profit curve.
- Demand curve.
- Average cost curve.
- Indifference curve.

10. The firm is a perfectly competitive market is a price-taker. This designation as a price taker is based on the assumption that:

- The firm has some, but not complete, control over its product price.
- There are so many buyers and sellers in the market that any individual firm cannot affect the market.
- Each firm produces a homogeneous product.
- There is easy entry into or exit from the market place.

11. Suppose that the demand curve for the XYZ Co. slopes downward and to the right. We can conclude that:

- The firm operates in a perfectly competitive market.
- The firm can sell all that it wants to at the established market price.
- The XYZ Co. is not a price-taker in the market because it must lower price to sell additional units of output.
- The XYZ Co. will not be able to maximise profits because price and revenue are subject to change.

12. A firm encounters its “shutdown point” when:

- Average total cost equals price at the profit-maximising level of output.
- Average variable cost equals price at the profit- maximising level of output.
- Average fixed cost equals price at the profit- maximising level of output.
- Marginal cost equals price at the profit-maximising level of output.

13. Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statement is correct?

- The firm should shutdown in order to minimize its losses.
- The firm should raise its price enough to cover its losses.
- The firm should move its resources to another industry.
- The firm should continue to operate in the short run in order to minimize its losses.

14. When price is less than average variable cost at the profit-maximising level of output, a firm should:

- Produce where marginal revenue equals marginal cost if it is operating in the short.
- Produce where marginal revenue equals marginal cost if it is operating in the long run.
- Shutdown, since it will lose nothing in that case.
- Shutdown, since it cannot even cover its variable costs if it stays in business.

15. A purely competitive firm's supply schedule in the short run is determined by.

- Its average revenue.
- Its marginal revenue.
- Its marginal utility for money curve.
- Its marginal cost curve.

16. One characteristic not typical of oligopolistic industry is.

- Horizontal demand curve.
- Too much importance to non-price competition.
- Price leadership.
- A small number of firms in the industry.

17. Under perfect competition, in the long run, there will be no _____.

- Normal profits.
- Supernormal profits.
- Production.
- costs.

18. When _____, We know that the firms are earning just normal profits.

- $AC = AR$.
- $MC = MR$.
- $MC = AC$.
- $AR = MR$.

19. When _____, we know that the firms must be producing at the minimum point of the average cost curve and so there will be productive efficiency.

- $AC = AR$.
- $MC = MR$.
- $MC = AC$.
- $AR = MR$.

20. When _____, there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.

- $MC = MR$.
- $MC = AC$.
- $MC = AR$.
- $AR = MR$.

21. Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?

- Electricity.
- Cable television.
- Cola.
- Milk.

22. Which of the following statement is accurate regarding a perfectly competitive firm?

- Demand curve is downward sloping.
- The demand curve always lies above the marginal revenue curve.
- Average revenue need not be equal to price.
- Price is given and is determined by the equilibrium in the entire market.

23. In the long run equilibrium of a competitive market, firms operate at.

- The intersection of the marginal cost and marginal revenue.
- Their efficient scale.
- Zero economic profit.
- All of these answer are correct.

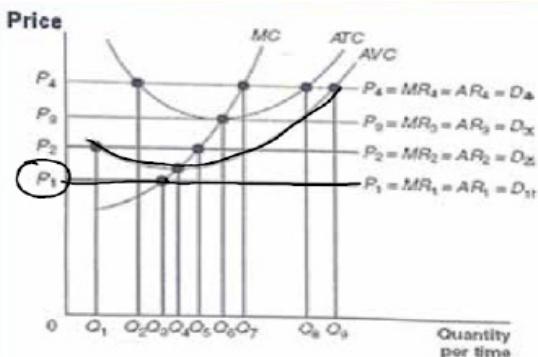
24. Under perfect competition a firm is the _____.

- Price-maker and non-price-taker.
- Price-taker and non-price-maker.
- Neither price-maker nor price-taker.
- None of the above.

25. A Monopolist is a.

- Price-maker.
- Price-taker.
- Price-adjuster.
- None of the above.

26. At price P_1 , the firm in the figure would produce



a. Zero output b. Q3 c. Q5 d. Q6

27. The firm and the industry are one and the same in _____

a. perfect competition b. Monopolistic competition c. Duopoly d. Monopoly

28. If average cost is higher than the average revenue then the firm incurs

a. Normal profit b. Abnormal profit c. Loss d. No profit, no loss

29. The AR curve and industry demand curve are same in case of

a. monopoly b. oligopoly
c. perfect competition d. none of these

30. A firm will shut down its operation if its

a. revenue is just equal to variable cost and the loss is equal to fixed costs
b. earning covers variable costs as well as a part of the fixed costs
c. average revenue falls below average variable cost
d. firms, in the short run never shut down their operation

31. Monopolist's demand curve slopes downward because

a. the industry's demand curve is the monopolist demand curve
b. he can influence price
c. he can influence output
d. all of the above

32. In a perfectly, competitive market, the demand curve is

a. relatively elastic b. relatively inelastic
c. unitary elastic d. infinitely elastic

33. In perfect competition, since the firm is a price taker, the curve is straight line.

a. marginal cost b. total cost
c. total revenue d. marginal revenue

34. In which of the following market structure, is the demand curve of the market is represented by the demand curve of the firm?

a. monopolistic competition b. perfect competition
c. monopoly d. oligopoly

35. The equilibrium level of output for the pure monopolist is where

- $MR=MC$
- $MR>MC$
- $MR<MC$
- $P < AC$

36. A perfectly competitive firm is operating at an output level where price is greater than marginal cost. Which of the following is/are true?

- the firm should increase its output so as to maximize profit
- the firm should reduce its output so as to maximize profit
- the firm is neither making profit nor loss
- the firm is incurring loss

37. Pure monopoly exists

- when there is single producer
- when there is single producer without any close substitute
- when there is a single producer with close substitutes
- when a few producers control the industry

38. Under monopoly form of market, TR is maximum when

- MR is zero
- MR is maximum
- $MR>0$
- $MR<0$

39. If price and marginal revenue are same, then demand curve must be

- perfectly elastic and horizontal
- perfectly inelastic and vertical
- highly inelastic
- highly elastic

40. Perfectly elastic demand curve signifies that

- the firm does not exercise any control over the price of the market
- the firm can sell any amount of the product as it likes at the ruling price
- both (a) and (b)
- none of these

41. Short-run supply curve of the perfectly competitive firm is represented by

- short-run marginal cost curve
- short-run average cost curve
- long-run average costs curve
- only that part of the marginal cost curve which lies above variable cost

42. Which of the following is true regarding monopolistic competition?

- $AR = MR$
- $MR = 0$
- $AR < MR$
- $AR > MR$

43. Under perfect competition,

- $P > MC$
- $P < MC$
- $P = MC$
- either(a)or(b)

44. If an individual seller, in perfectly competitive market, wishes to double his sales, he would

- improve the quality of his product
- lower his price to half
- simply offer double the quantity of his product
- advertise the superiority of his product

45. A queue of a large number of farmers before a single cold storage in the area is a case of
 a. monopoly b. oligopoly c. monopsony d. monopolistic competition

46. Even in long run equilibrium, the pure monopolist can make abnormal profits because of _____
 a. blocked entry b. high price he charges
 c. his low LAC d. advertising

47. The average revenue curve of a firm in perfect competition is
 a. U shaped b. L shaped c. vertical d. horizontal

48. Monopolistic can fix
 a. both price and output b. either price or output
 c. neither price nor output d. none

49. In general, if the average revenue curve is a straight line, the marginal revenue curve will be _____
 a. U shaped b. a straight line c. C shaped d. bell shaped

50. Using total revenue and total cost curve, the level of output that gives maximum profits will be one where
 a. TR and TC curves intersects
 b. the gap between TR and TC is maximum and TR curves lies below TC curve
 c. the gap between TR and TC is maximum and TR curve lies above TC curve
 d. $TR = TC$ curve

51. When AR is constant, MR is
 a. equal to AR b. more than AR c. less than AR d. equal to zero

52. At the shut-down point
 a. $P = AVC$ b. $TR = TVC$
 c. the total losses of the firm equal TFC d. all of the above

53. In a competitive firm when $AR = AC$, then firm earns
 a. zero economic profit b. abnormal profit
 c. normal profit d. both A & C

54. In case of consumer's, demand curve determined the price, but in the case of producer,
 i. AR curve determined the price
 ii. AR curve determined the price and income
 iii. MR curve determined the price
 iv. MR curve and AR curve are determined the price
 a. 1 only b. 2 only c. 3 only d. 4 only

55. One would expect a firm to close down rather than continue producing in the short period if
 a. total revenue were more than total variable cost
 b. total revenue were less than total variable cost
 c. variable cost were to be fall below fixed costs

d. variable costs were to be rise below the fixed costs

56. If more firms enter a competitive industry, the theory predicts that

- both marginal and average cost curves rises
- the industry short-run supply shift upwards to the right
- output of every firm increases
- the prices of product rises

57. Long-run equilibrium price of a perfect competitive firm is always

- above the LAC
- below the LAC
- equal to AFC
- equal to LAC

58. A monopoly producer has

- control over production but not price
- control over production as well as price
- control neither on production nor on price
- control on price, production and consumers

59. A firm can sell as much as it wants at the market price. The situation is related to

- perfect competition
- monopoly
- monopolistic competition
- oligopoly

60. when we know firms are earning zero economic profits

- $MR = MC$
- $AR = AC$
- $MR = AR$
- $MC = AC$

ANSWERS:

1.	d	2.	d	3.	a	4.	b	5.	c	6.	d
7.	c	8.	b	9.	b	10.	b	11.	c	12.	b
13.	d	14.	d	15.	d	16.	a	17.	b	18.	a
19.	b	20.	c	21.	d	22.	d	23.	d	24.	b
25.	a	26.	a	27.	d	28.	c	29.	a	30.	c
31.	d	32.	d	33.	d	34.	c	35.	a	36.	a
37.	b	38.	a	39.	a	40.	c	41.	d	42.	d
43.	c	44.	c	45.	a	46.	a	47.	d	48.	b
49.	a	50.	c	51.	a	52.	d	53.	d	54.	a
55.	b	56.	b	57.	d	58.	b	59.	a	60	b

UNIT 2

1. Which of the following is not a characteristic of a Monopolistic competition?
 - a. Ease of entry into the industry.
 - b. Product differentiation.
 - c. A relatively large number of sellers.
 - d. A homogeneous product.
2. Oligopolistic industries are characterised by:
 - a. A few dominant firms and substantial barriers to entry.
 - b. A few large firms and no entry barriers.
 - c. A large number of small firms and no entry barrier.
 - d. One dominant firm and low entry barrier.
3. Monopolistic competition differs from perfect competition primarily because.
 - a. In Monopolistic competition, firms can differentiate their product.
 - b. In perfect competition, firms can differentiate their product.
 - c. In Monopolistic competition, entry into the industry is blocked.
 - d. In Monopolistic competition, there are relatively few barriers to entry.
4. The long run equilibrium outcomes in Monopolistic competition and perfect competition are similar, because in both market structures.
 - a. The efficient output level will be produced in the long run.
 - b. Firms will be producing at minimum average cost.
 - c. Firms will only earn a normal profit.
 - d. Firms realize all economic of scale.
5. Which of the following is the distinguishing characteristic of oligopolies?
 - a. A standardize product.
 - b. The goal of profit maximization.
 - c. The interdependence among firms.
 - d. Download-sloping demand curves faced by firms.
6. In which form of the market structure is the degree of control over the price of its product by a firm very large?
 - a. Monopoly.
 - b. Imperfect competition.
 - c. Oligopoly.
 - d. Perfect competition.
7. Under which of the following forms of market structure does a firm have no control over the price of its product?
 - a. Monopoly.
 - b. Monopolistic competition.
 - c. Oligopoly.
 - d. Perfect competition.
8. Discriminating monopoly implies that the monopolist charges different prices for his commodity.
 - a. From different groups of consumers.
 - b. For different uses.
 - c. At different places.
 - d. Any of the above.

9. Price discrimination will be profitable only if the elasticity of demand in different submarket is:

- Uniform.
- Different.
- Less.
- Zero.

10. In the context of oligopoly, the kinked demand hypothesis is designed to explain.

- Price and output determination.
- Price rigidity.
- Price leadership.
- Collusion among rivals.

11. If firms in the toothpaste industry have the following market shares, which market structure would best describe the industry?

Market share	(% of market)
Toothpaste	18.7
Dentipaste	14.3
Shinibright	11.6
I can't believe its not toothpaste	9.4
Brighter than white	8.8
Pastystuff	7.4
Others	29.8

- Perfect competition.
- Monopolistic competition.
- Oligopoly.
- Monopoly.

12. The kinked demand curve model of oligopoly assumes that.

- The response (of consumers) to a price increase is less than the response to a price decrease.
- The response (of consumers) to a price increase is more than the response to a price decrease.
- The elasticity of demand is constant regardless of whether price increase or decreases.
- The elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decrease.

13. One characteristic not typical of oligopolistic industry is.

- Horizontal demand curve.
- Too much importance to non-price competition.
- Price leadership.
- A small number of firms in the industry.

14. The structure of the toothpaste industry in India is best described as.

- Perfectly competitive.
- Monopolistic.
- Monopolistically competitive.
- Oligopolistic.

15. The structure of the cold drink industry in India is best described as.

- Perfectly competitive.
- Monopolistic.
- Monopolistically competitive.
- Oligopolistic.

16. Which of the following statements is incorrect?

- Even a monopolistic firm can have losses.
- Firms in a perfectly competitive market are price takers.
- It is always beneficial for a firm in a perfectly competitive market to discriminate prices.
- Kinked demand curve is related to an oligopolistic market.

17. Under perfect competition, in the long run, there will be no _____.
a. Normal profits. b. Supernormal profits. c. Production. d. costs.

18. Agricultural goods markets depict characteristic close to.
a. Perfect competition. b. Oligopoly. c. Monopoly. d. Monopolistic competition.

19. Which of the following is not a characteristic of a competitive market?
a. There are many buyers and sellers in the market.
b. The goods offered for sale are largely the same.
c. Firms generate small but positive supernormal profits in the long run.
d. Firms can freely enter or exit the market.

20. The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanely, and Craftsman. This market is best described as.
a. Monopolistic competition. b. A monopoly.
c. An oligopoly. d. Perfectly competitive.

21. A market structure in which many firms sell products that are similar but not identical is known as
a. Monopolistic competition. b. Monopoly.
c. Perfect competition. d. Oligopoly.

22. When an Oligopolist individually chooses its level of production to maximise its profits, it charges a price that is.
a. More than the price charged by either monopoly or a competitive market.
b. Less than the price charged by either monopoly or a competitive market.
c. More than the price charged by a monopoly and less than the price charged by a competitive market..
d. Less than the price charged by a monopoly and more than the price charged by a competitive market.

23. Which of the following is not a characteristic of a monopolistically competitive market?
a. Free entry and exit. b. Abnormal profits in the long run.
c. Many sellers. d. Differentiated products.

24. Price discrimination is one of the features of _____.
a. Monopolistic competition. b. Monopoly.
c. Perfect competition. d. Oligopoly.

25. Under monopoly, the degree of control over price is:
a. None. b. Some. c. Very considerable. d. None of the above.

26. Pure oligopoly is based on the _____ product
a. differentiated b. homogenous c. unrelated d. none of the above

27. In Oligopoly, when the industry is dominated by one large firm which is considered as leader of the group. Then it is called:

- a. full Oligopoly
- b. collusive oligopoly
- c. partial oligopoly
- d. syndicated oligopoly

28. When the products are sold through a centralized body, oligopoly is known as

- a. Organized oligopoly
- b. partial oligopoly
- c. competitive oligopoly
- d. syndicated oligopoly

29. When the monopolist divides the consumers into separate sub markets and charges different prices in different sub- markets it is known as

- a. First degree of price discrimination.
- b. Second degree of price discrimination.
- c. Third degree of price discrimination
- d. None of the above

30. Under _____ the monopolistic will fix a price which will take away the entire consumer's surplus

- a. Second degree of price discrimination
- b. first degree of price discrimination
- c. third degree of price discrimination
- d. none of the above

31. Price discrimination is related to

- a. time
- b. size of the purchase
- c. income
- d. any of the above

32. The demand curve of a monopoly firm will be _____

- a. upward sloping
- b. Downward sloping
- c. Horizontal
- d. Vertical

33. Which of the following statement is correct?

- a. Price rigidity is an important feature of monopoly
- b. Selling costs are possible under perfect competition
- c. Under perfect competition factors of production do not move freely as there are legal restriction.
- d. An industry consists of many firms.

34. Which of the following statements is incorrect?

- a. Under monopoly there is no difference between firm and an industry.
- b. A monopolist may restrict the output and raise the price.
- c. Commodities offered for sale under a perfect competition will be heterogeneous.
- d. Product differentiation is peculiar to monopolistic competition.

35. Price discrimination is possible

- a. only under monopoly situation
- b. under any market form
- c. only under monopolistic competition
- d. only under perfect competition

36. The market, which has large numbers of sellers, selling differentiated product and freedom to entry and exit is an example of

- a. perfect competition
- b. monopoly
- c. monopolistic competition
- d. oligopoly

37. The market in which the numbers of sellers, is small and there is interdependence in decision making by the firm is known as

- a. perfect competition
- b. oligopoly
- c. monopoly
- d. monopolistic competition

38. Which of the following feature is not seen in imperfect competition?

- a. few seller
- b. product differentiation
- c. price wars
- d. all goods are homogenous

39. In imperfect competition, the average revenue and marginal revenue curves are

- a. different
- b. same
- c. identical
- d. duopoly

40. In ,a firm faces an infinitely elastic demand curve which means that the firm can sell any amount of a good at the prevailing market price.

- a. oligopoly market
- b. monopoly market
- c. perfect competition
- d. monopolistic market

41. Highly elastic negatively sloped demand curve is related to

- a. perfect competition
- b. monopolistic competition
- c. both(a) and (b)
- d. none of above

42. Under monopolistic competition, elasticity of demand for the product of a single firm would be

- a. infinite
- b. highly elastic
- c. highly inelastic
- d. zero

43. Excess capacity is a prominent feature of equilibrium under

- a. perfect competition
- b. monopoly
- c. monopolistic competition
- d. oligopoly

44. Different firms charge different prices of their products under

- a. perfect competition
- b. monopoly
- c. monopolistic competition
- d. oligopoly

45. Cigarette industries must be closely related to

- a. perfectly competitive
- b. imperfectly competitive market
- c. monopolistic market
- d. oligopolistic market

46. Price discrimination is profitable when

- a. the elasticity of product in different markets is same
- b. the elasticity of product in different markets is different
- c. the elasticity of product in different markets is zero
- d. none of the above

47. Selling costs are incurred under monopolistic competition to

- attract more customers
- prevent its customers from going to others
- establish superiority of its product vis-à-vis the others
- all of the above

48. Negative sloped with higher elasticity demand curve is related to

- high price level
- monopolistic competitor
- oligopolistic competitor
- low price level

49. Kinked demand curve in oligopoly market explains

- price leadership
- price and output determination
- price rigidity
- collusion among rival firms

ANSWERS:

1.	d	2.	d	3.	a	4.	c	5.	c	6.	a
7.	d	8.	d	9.	b	10.	b	11.	c	12.	b
13.	a	14.	c	15.	d	16.	c	17.	b	18.	a
19.	c	20.	c	21.	a	22.	d	23.	b	24.	b
25.	c	26.	b	27.	c	28.	d	29.	c	30.	b
31.	d	32.	b	33.	d	34.	c	35.	a	36.	c
37.	b	38.	d	39.	a	40.	c	41.	b	42.	b
43.	c	44.	c	45.	b	46.	b	47.	d	48.	b
49.	c										

MULTIPLE CHOICE QUESTIONS

1. The term business cycle refers to
 - (a) The ups and downs in production of commodities
 - (b) The fluctuating levels of economic activity over a period of time
 - (c) Decline in economic activities over prolonged period of time
 - (d) Increasing unemployment rate and diminishing rate of savings

2. A significant decline in general economic activity extending over a period of time is
 - (a) Business cycle
 - (b) recession
 - (c) Contraction phase
 - (d) recovery

3. The trough of a business cycle occurs when _____ hits its lowest point.
 - (a) inflation in the economy
 - (b) aggregate economic activity
 - (c) the money supply
 - (d) the unemployment rate

4. The lowest point in the business cycle is referred to as the
 - (a) Expansion.
 - (b) Boom.
 - (c) Peak.
 - (d) Trough.

5. A leading indicator is
 - (a) a variable that tends to move along with the level of economic activity
 - (b) a variable that tends to move in advance of aggregate economic activity
 - (c) a variable that tends to move consequent on the level of aggregate economic activity
 - (d) None of the above

6. A variable that tends to move later than aggregate economic activity is called
 - (a) a leading variable.
 - (b) a coincident variable.
 - (c) a lagging variable.
 - (d) a cyclical variable.

7. Industries that are extremely sensitive to the business cycle are the
 - (a) Durable goods and service sectors.
 - (b) Non-durable goods and service sectors.
 - (c) Capital goods and non-durable goods sectors.
 - (d) Capital goods and durable goods sectors.

8. A decrease in government spending would cause
 - (a) The aggregate demand curve to shift to the right.
 - (b) The aggregate demand curve to shift to the left.
 - (c) A movement down and to the right along the aggregate demand curve.
 - (d) A movement up and to the left along the aggregate demand curve.

9. Which of the following does not occur during an expansion?
 - (a) Consumer purchases of all types of goods tend to increase.
 - (b) Employment increases as demand for labour rises.
 - (c) Business profits and business confidence tend to increase
 - (d) None of the above.

10. Which of the following best describes a typical business cycle?

- Economic expansions are followed by economic contractions.
- Inflation is followed by rising income and unemployment.
- Economic expansions are followed by economic growth and development.
- Stagflation is followed by inflationary economic growth.

11. During recession, the unemployment rate _____ and output _____.

- Rises; falls
- Falls; rises
- Rises; rises
- Falls; falls

12. The four phases of the business cycle are

- Expansion, peak, contraction and trough
- Contraction, expansion, trough and boom
- Expansion contraction, peak, and trough
- Peak, depression, bust, and boom

13. Leading economic indicators

- Are used to forecast probable shifts in economic policies
- Are generally used to forecast economic fluctuations
- Are indicators of stock prices existing in an economy.
- Are indicators of probable recession and depression.

14. When aggregate economic activity is declining, the economy is said to be in

- Contraction.
- an expansion.
- a trough.
- a turning point.

15. Peaks and troughs of the business cycle are known collectively as

- Volatility.
- Turning points.
- Equilibrium points.
- Real business cycle events.

16. The most probable outcome of an increase in the money supply is

- Interest rates to rise, investment spending to rise, and aggregate demand to rise
- Interest rates to rise, investment spending to fall, and aggregate demand to fall
- Interest rates to fall, investment spending to rise, and aggregate demand to rise
- Interest rates to fall, investment spending to fall, and aggregate demand to fall

17. Which of the following is not a characteristic of business cycles?

- Business cycles have serious consequences on the well-being of the society.
- Business cycles occur periodically, although they do not exhibit the same regularity.
- Business cycles have uniform characteristics and causes.
- Business cycles are contagious and unpredictable.

18. Economic recession shares all of these characteristics except.

- Fall in the levels of investment, employment
- Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
- Investor confidence is adversely affected and new investments may not be forthcoming
- Increase in the price of inputs due to increased demand for inputs

19. The different phases of a business cycle

- (a) do not have the same length and severity
- (b) expansion phase always last more than ten years
- (c) last many years and are difficult to get over in short periods
- (d) none of the above

20. Which of the following is not an example of coincident indicator?

- (a) Industrial production
- (c) Retail sales
- (b) inflation
- (d) New orders for plant and equipment

21. According to _____ trade cycles occur due to onset of innovations.

- (a) Hawtrey
- (c) J M Keynes
- (b) Adam Smith
- (d) Schumpeter

22. Economic indicators are –

- (a) A one stroke solution to check the phase of economy
- (b) Indicators showing the movement of economy
- (c) Some activities which predict the direction of economy
- (d) Just an illusion

23. Which economic indicator is required to predict the turning point of business cycle?

- (a) Leading indicator
- (b) Lagging indicator
- (c) Coincident
- (d) All of the above

24. Business cycle generally originate in free market economies, what is a free market economy?

- (a) The economy where government is in possession of major assets
- (b) The economy where private firms control major assets
- (c) The economy where decisions of productions are taken by public sector undertakings
- (d) The economy where price is controlled by government.

25. Which of the following statements is correct?

- (a) The business cycle largely affects the agricultural sector
- (b) The business cycle largely affects small employees
- (c) The business cycle generally affects all sectors of economy but business sector in particular.
- (d) The business cycle affects low wages workers

26. According to Keynes, fluctuations in Economic activities are due to-.

- (a) Fluctuation in aggregate effective demand.
- (b) Innovations
- (c) Changes in money supply
- (d) Fluctuation in agricultural output

27. Which of the following is the cause of business cycles?

- (a) Fluctuations in aggregate effective demand
- (b) Fluctuations in investments
- (c) Fluctuations in government spending
- (d) All of the above

Answers

1	b	2	c	3	c	4	d	5	b
6	c	7	d	8	b	9	d	10	a
11	a	12	c	13	b	14	a	15	b
16	c	17	c	18	d	19	a	20	d
21	d	22	b	23	d	24	b	25	c
26	a	27	d						

MULTIPLE CHOICE QUESTIONS

UNIT 1

1. Which of the following is NOT a component of Gross Domestic Product (GDP)?
(a) Consumption (b) Investment
(c) Government Spending (d) Imports
2. Which of the following is the correct formula for calculating Gross Domestic PRODUCT (GDP)?
(a) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$
(b) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Exports} - \text{Imports}$
(c) $GDP = \text{Consumption} + \text{Investment} + \text{Net Exports}$
(d) $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Exports}$
3. Which of the following is a measure of a country's Gross National Product (GNP)?
(a) The total value of all goods and services produced within a country's borders in a specific period.
(b) The total value of all goods and services produced by a country's residents, both domestically and abroad, in a specific period.
(c) The total value of all goods and services sold by a country to other countries in a specific period.
(d) The total value of all goods and services produced by a country's domestic companies in a specific period.
4. In national income accounting, "Net Domestic Product (NDP)" is defined as:
(a) The total value of all goods and sevices produced within a country's borders in a specific period.
(b) The total value of all final goods and services produced within a country's borders in a specific period.
(c) The total value of all goods and services produced withina country's borders minus depreciation in a specific period.
(d) The total value of all goods and services produced by a country's
5. In national income accounting, what does the term "disposable income" refer to?
(a) The total income earned by a nation's residents.
(b) The income that individuals have after paying taxes.
(c) The total income earned by a nation's residents minus governmen spending.
(d) The income earned from foreign sources.
6. Which of the following is used to measure the total income earned by a country's residents, regardless of their location?
(a) Gross National Product (GNP) (b) Gross Domestic Product (GDP)
(c) Net National Product (NNP) (d) Net Domestic Product (NDP)

7. in National Income Accounting, depreciation of capital refers to:

- The decrease in the value of a nation's currency
- The decrease in the value of physical assets over time
- The decrease in the government's budget deficit
- The decrease in consumer spending on durable goods

8. Which of the following is an example of a transfer payment in National Income Accounting?

(a) Salary of a government employee	(b) Social Security benefits
(c) Income earned from selling goods	(d) Corporate taxes paid to the government

9. Which of the following is NOT a component of Aggregate Expenditure in National Income Accounting?

(a) Consumption (C)	(b) Investment (I)
(c) Government Spending (G)	(d) Net Exports (NX)

10. National Income estimates are essential for:

- Calculating government debt
- Evaluating the overall health of the financial sector
- Measuring the economic growth and development of a country
- Determining the inflation rate

11. The Gross Domestic Product (GDP) per capita is used to:

- Measure the overall size of the economy
- Determine the average income of a country's citizens
- Calculate the total value of exports and imports
- Analyze the distribution of wealth in a nation

12. Which of the following is NOT a usefulness of National Income estimates?

- Facilitating economic planning and formulation of policies
- Assessing the contribution of different sectors to the economy
- Aiding in international trade negotiations
- Estimating the unemployment rate

13. The difference between Gross National Product (GNP) and Gross Domestic Product (GDP) is mainly due to:

(a) receipts and payments	(b) Government spending
(c) Foreign aid received	(d) Remittances from citizens working abroad

14. National Income estimates help in identifying:

- The number of foreign tourists visiting the country
- The contribution of different sectors to the economy
- The literacy rate and educational attainment of citizens
- The availability of natural resources within the country

15. National Income estimates are essential because they help in:

- (a) Calculating the total population of a country
- (b) Measuring the total value of goods and services produced in a country
- (c) Determining the exchange rate of the country's currency
- (d) Evaluating the literacy rate of the country

16. National Income estimates help in international Comparisons of countries economies because they:

- (a) Provide information about the military strength of the countries
- (b) Show the total exports and imports of the countries
- (c) Indicate the level of technological advancement in the countries
- (d) Offer a common measure to compare economic performance

17. Net National Product (NNP) is calculated by:

- (a) Deducting depreciation from Gross Domestic Product (GDP).
- (b) Adding depreciation to Gross National Product (GNP).
- (c) Deducting indirect taxes from Gross Domestic Product (GDP).
- (d) Deducting indirect taxes to Gross National Product (GNP).

18. Net Domestic Income (NDI) is defined as:

- (a) The total income earned by a country's residents, including net income from abroad.
- (b) The total income earned by a country's residents, excluding net income from abroad and indirect taxes.
- (c) The total income earned by a country's residents, including indirect taxes.
- (d) The total income earned by a country's residents, excluding depreciation.

19. Personal Income (PI) is calculated as:

- (a) National Disposable Income (NDI) minus corporate profits and social insurance contributions.
- (b) National Income (NI) minus indirect taxes.
- (c) Gross Domestic Product (GDP) minus depreciation.
- (d) Gross National Product (GNP) minus net income from abroad.

20. Gross Domestic Product (GDP) is defined as the total:

- (a) Income earned by a country's residents, regardless of their location
- (b) Value of goods and services produced within a country's borders
- (c) Income earned by foreign residents within the country
- (d) Value of goods and services produced by a country's residents abroad

21. Personal Income (PI) is derived from National Income (NI) by:

- (a) Adding transfer payments and deducting undistributed corporate profits
- (b) Adding corporate profits and deducting net interest and rent
- (c) Deducting direct taxes and adding transfer payments
- (d) Deducting retained earnings and adding social security contributions

22. Which concept of National Income includes only the market value of final goods and services produced within a country's borders during a specific time period?

(a) Gross National Product (GNP) (b) Net Domestic Product (NDP)
(c) Gross Domestic Product (GDP) at market price (d) Net National Product (NNP)

23. Which concept of National Income deducts depreciation (capital consumption) from Gross Domestic Product (GDP)?

(a) Net Domestic Product (NDP) (b) Net National Product (NNP)
(c) Gross National Product (GNP) (d) Gross Domestic Product (GDP) at factor cost

24. Which concept of National Income takes into account the net income earned from foreign investments and deducts net income earned by foreigners within the country?

(a) Gross Domestic Product (GDP) at factor cost (b) Net Domestic Product (NDP)
(c) Gross National Product (GNP) (d) Net National Product (NNP)

25. Which concept of National Income includes only the value added at each stage of production and avoids double-counting?

(a) Gross Domestic Product (GDP) at market price (b) Net Domestic Product (NDP)
(c) Gross Domestic Product (GDP) at factor cost (d) Gross Value Added (GVA)

26. Which concept of National Income measures the total market value of all final goods and services produced within a country's borders, excluding the value of indirect taxes and including subsidies?

(a) Net Domestic Product (NDP) at factor cost
(b) Gross Domestic Product (GDP) at factor cost
(c) Gross Domestic Product (GDP) at market price
(d) Net National Product (NNP)

27. The following table shows the production and prices of two goods, X and Y, in a hypothetical economy for the year 2023:

Goods	Quantity Produced	Price per Unit
X	100 units	₹10
Y	150 units	₹15

Calculate the nominal GDP of the economy for the year 2023.

(a) ₹2,500 (b) ₹3,000 (c) ₹3,250 (d) ₹4,000

28. In a country, the nominal GDP for the year 2022 is ₹800 billion and the GDP deflator for 2022 is 120.0. What is the real GDP for 2022?

(a) ₹480 billion (b) ₹666.67 billion (c) ₹666.00 billion (d) ₹960 billion

29. The nominal GDP of a country in the base year was ₹500 billion and the real GDP in the same year was ₹450 billion. Calculate the GDP deflator for the base year.

(a) 90.0 (b) 100.0 (c) 110.0 (d) 125.0

30. In the current year, the nominal GDP of the country is ₹600 billion, and the real GDP is ₹540 billion. Calculate the GDP deflator for the current year using the base year's GDP deflator (which is 100.0).

(a) 90.0 (b) 100.0 (c) 110.0 (d) 125.0

31. If the GDP deflator for a particular year is 120.0, what does it indicate about the price level compared to the base year?

- Prices have increased by 20% compared to the base year.
- Prices have decreased by 20% compared to the base year.
- Prices have remained the same as the base year.
- Prices have doubled compared to the base year.

32. If the GDP deflator for a particular year is 90.0, what does it indicate about the price level compared to the base year?

- Prices have increased by 10% compared to the base year.
- Prices have decreased by 10% compared to the base year.
- Prices have remained the same as the base year.
- Prices have decreased by 90% compared to the base year.

33. In a country, the Gross National Product (GNP) for the year 2021 is calculated as follows:

- Gross Domestic Product (GDP) = ₹900 billion
- Net factor income from abroad (NFIA) = ₹50 billion (negative value indicates net outflow of income to foreign countries) Calculate the GNP for the year 2021.

- ₹850 billion
- ₹950 billion
- ₹950 billion (adjusted for net factor income from abroad)
- ₹850 billion (adjusted for net factor income from abroad)

34. In a country, the Gross National Product (GNP) for the year 2022 is ₹1,200 billion, and Net factor income from abroad (NFIA) is ₹40 billion (positive value indicates net inflow of income from foreign countries). Calculate the Gross Domestic Product (GDP) for the year 2022.

- ₹1,160 billion
- ₹1,240 billion
- ₹1,160 billion (adjusted for net factor income from abroad)
- ₹1,240 billion (adjusted for net factor income from abroad)

35. In a country, the Gross National Product (GNP) at Market Prices for the year 2021 is ₹800 billion. During the same year, depreciation (Capital Consumption Allowance) amounts to ₹100 billion. Calculate the Net National Product at Market Prices (NNPMP) for the year 2021.

- ₹900 billion
- ₹700 billion
- ₹800 billion
- ₹600 billion

36. In a country, the Gross Domestic Product at Market Prices (GDPMP) for the year 2021 is ₹900 billion, and indirect taxes on products are ₹50 billion. Calculate the Gross Domestic Product at Factor Cost (GDPFC) for the year 2021.

- ₹850 billion
- ₹950 billion
- ₹850 billion (adjusted for indirect taxes)
- ₹850 billion (adjusted for subsidies)

37. In a country, the Gross Domestic Product at Factor Cost (GDPFC) for the year 2021 is ₹800 billion, and depreciation (consumption of fixed capital) is ₹100 billion. Calculate the Net Domestic Product at Factor Cost (NDPFC) for the year 2021.

(a) ₹700 billion
 (b) ₹900 billion
 (c) ₹700 billion (adjusted for depreciation)
 (d) ₹900 billion (adjusted for depreciation)

38. In a country, the Net National Product at Factor Cost (GNPFC) for the year 2021 is ₹900 billion, and net indirect taxes (subsidies) on products are ₹50 billion. Calculate the Net National Product at Factor Cost (NNPFC) or National Income for the year 2021.

(a) ₹850 billion
 (b) ₹950 billion
 (c) ₹850 billion (adjusted for net indirect taxes)
 (d) ₹850 billion (adjusted for subsidies)

39. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2021 is ₹900 billion, depreciation (consumption of fixed capital) is ₹100 billion, net indirect taxes (subsidies) on products are ₹50 billion and net current transfers are ₹20 billion. Calculate the Personal Income for the year 2021.

(a) ₹730 billion (b) ₹830 billion (c) ₹850 billion (d) ₹900 billion

40. In a country, the Personal Income (PI) for the year 2021 is ₹800 billion. The direct taxes are ₹100 billion, and the social security contribution are ₹50 billion. Calculate the Disposable Personal Income (DI) for the year 2021, given that there are no other income transfers.

(a) ₹650 billion (b) ₹750 billion (c) ₹700 billion (d) ₹600 billion

41. In a country, the Personal Income (PI) for the year 2021 is ₹900 billion. Personal taxes for the year 2021 are ₹150 billion. Calculate the Disposable Personal Income (DI) for the year 2021.

(a) ₹750 billion
 (b) ₹900 billion
 (c) ₹750 billion (adjusted for personal taxes)
 (d) ₹1,050 billion

42. Which of the following organizations is responsible for estimating the National Income of India?

(a) Reserve Bank of India (RBI) (b) Central Statistical Office (CSO)
 (c) Ministry of Finance (d) World Bank

43. Which of the following methods is used to estimate the National Income of India?

(a) Expenditure approach (b) Consumer Price Index method
 (c) Profit and Loss method (d) Balance of Payments approach

44. Which of the following is NOT Considered a part of the National Income?

(a) Wages of factory workers
 (b) Dividends received by shareholders from a domestic company
 (c) Profits earned by a foreign company from its operations in India

(d) Government grants given to a state for infrastructure development

45. Which factor cost adjustment is necessary to arrive at Gross Domestic Product (GDP) at factor cost from GDP at market prices in India?

- Deducting indirect taxes and adding subsidies
- Adding indirect taxes and deducting subsidies
- Adding net exports
- Deducting net exports

46. Which of the following sectors is NOT included in the sectoral classification used for estimating National Income in India?

(a) Agriculture and allied activities	(b) Manufacturing
(c) Services	(d) Foreign Trade

47. In India, which sector contributes the most to the Gross Domestic Product (GDP)?

(a) Agriculture and Allied Activities	(b) Manufacturing
(c) Services	(d) Mining and Quarrying

Answers

1.	d	2.	b	3.3.	b	4.	c	5.	b
6.	a	7.	b	8.	d	9.	c	10.	b
11.	d	12.	a	13.	b	14.	b	15.	d
16.	b	17.	b	18	a	19.	b	20.	c
21.	a	22.	c	23.	a	24.	c	25.	d
26	b	27.	c	28.	b	29.	b	30.	c
31.	a	32	b	33.	c	34.	c	35.	b
36.	c	37.	c	38.	c	39.	b	40.	a
41.	c	42	b	43.	a	44.	d	45.	a
46.	d	47.	c						

UNIT 2

- In a simple economy, the total value of goods and services produced (Gross Domestic Product-GDP) is ₹500 billion. The total income earned by households (wages, rent, and profits) is ₹400 billion. Calculate the total value of savings and taxes in this economy.
 (a) ₹100 billion (b) ₹200 billion (c) ₹300 billion (d) ₹400 billion
- In a closed economy, the total value of goods and services produced (Gross Domestic Product - GDP) is ₹800 billion. The total value of consumption expenditure is ₹600 billion. Calculate the total value of savings in this closed economy.
 (a) ₹100 billion (b) ₹200 billion (c) ₹300 billion (d) ₹400 billion
- In a two-sector economy, the total value of output (Gross Domestic Product) is ₹800 billion. Calculate the total value of income generated in the economy.
 (a) ₹800 billion (b) ₹600 billion (c) ₹400 billion (d) ₹1,200 billion
- Consider a three-stage production process. The value of raw materials purchased by a firm is ₹500, the cost of intermediate goods is ₹300, and the firm has a value of ₹100 to produce the final goods. Calculate the value added by the firm
 (a) ₹200 (b) ₹300 (c) ₹500 (d) ₹1,000
- In an economy, the following income components are given: employee compensation (₹300 billion), rents (₹50 billion), interest (₹100 billion), proprietor's income (₹150 billion), corporate profits (₹200 billion), and taxes on production and imports (₹50 billion). Calculate the Gross Domestic Product (GDP) using the Income Method.
 (a) ₹500 billion (b) ₹700 billion (c) ₹800 billion (d) ₹850 billion
- In a country, the total compensation of employees (wages, salaries, and benefits) for the year 2021 is ₹500 billion. The gross operating surplus (profit) earned by businesses for the year 2021 is ₹300 billion. Calculate the Gross National Income (GNI) for the year 2021.
 (a) 200 billion (b) 500 billion (c) 800 billion (d) 300 billion
- In a country, the total private consumption expenditure for the year 2021 is ₹800 billion. The total investment expenditure for the year 2021 is ₹200 billion. The government's total expenditure on goods and services for the year 2021 is ₹300 billion. Calculate the Gross Domestic Product (GDP) for the year 2021.
 (a) ₹500 billion (b) ₹1,000 billion (c) ₹1,300 billion (d) ₹900 billion
- In a country, the total private consumption expenditure for the year 2023 is ₹1,200 billion. The total investment expenditure for the year 2023 is ₹300 billion. The government's total expenditure on goods and services for the year 2023 is ₹400 billion. Calculate the Gross Domestic Product
 (a) ₹1,500 billion (b) ₹1,900 billion
 (c) ₹1,900 billion (adjusted for imports) (d) ₹1,500 billion (adjusted for exports)

9. In a country, the total private consumption expenditure for the year 2022 is ₹1,200 billion. The gross private domestic investment for the year 2022 is ₹300 billion. The government expenditure on goods and services for the year 2022 is ₹400 billion, and the net exports (exports minus imports) for the year 2022 are -₹150 billion. Calculate the Gross Domestic Product (GDP) for the year 2022.
(a) ₹1,750 billion (b) ₹1,350 billion (c) ₹1,550 billion (d) ₹1,100 billion

10. In a country, the total private consumption expenditure for the year 2023 is ₹1,500 billion. The gross private domestic investment for the year 2023 is ₹400 billion. The government expenditure on goods and services for the year 2023 is 500 billion, and the net exports (export minus imports) for the year 2023 are -₹200 billion. Calculate the Gross Domestic Product (GDP) for the year 2023.
(a) ₹1,300 billion (b) ₹1,300 billion (c) ₹1,600 billion (d) ₹1,200 billion

11. Which of the following statements is true regarding the relationship between GDP and welfare?
(a) Higher GDP always leads to higher welfare for all citizens.
(b) Higher GDP guarantees improved living standards for all citizens
(c) GDP is a comprehensive measure of societal well-being
(d) GDP per capita is a useful but incomplete indicator of welfare.

12. Which of the following factors is NOT considered in the calculation of GDP?
(a) Government spending on infrastructure projects
(b) Investment in new factories and equipment
(c) Income earned by citizens working abroad
(d) Transfer payments, such as social welfare benefits

13. Which of the following situations can lead to a discrepancy between GDP growth and citizens' well-being?
(a) When inflation is high, and GDP growth is low
(b) When income inequality increases during a period of economic expansion
(c) When a country's exports decrease, and GDP growth slows down
(d) When government spending increases to fund public services and welfare programs

14. Which of the following is a limitation of using GDP as a measure of welfare ?
(a) GDP does not account for the value of goods and services produced in the informal sector.
(b) GDP does not consider government spending on defense and security.
(c) GDP does not take into account changes in the trade balance.
(d) GDP does not capture the impact of technological advancements on productivity.

15. Which of the following statements is true regarding GDP and welfare?
(a) A higher GDP always indicates higher welfare for the population
(b) GDP is unrelated to the well-being and welfare of the population
(c) GDP is a good indicator of economic growth but does not capture the overall welfare of the population.
(d) GDP is a measure of income distribution among the population

16. Which of the following is a limitation of using Gross Domestic Product (GDP) as a measure of economic welfare?

- GDP does not account for changes in the population size
- GDP includes the value of all final goods and services.
- GDP consider[income distribution among different income groups.
- GDP measures the total value of goods and services produced.

17. Which factor can lead to an overestimation of a country's GDP?

- Inclusion of government transfer payments
- Exclusion of household consumption
- Exclusion of exports of goods and services
- Inclusion of imports of goods and services

18. Which aspect is not adequately captured by GDP, making it an incomplete measure of economic performance?

- Economic growth rate
- Inflation rate
- Income distribution
- Unemployment rate

19. Which of the following is NOT a limitation of using GDP as a measure of well-being?

- GDP ignores the value of leisure time and non-market activities.
- GDP does not account for environmental degradation and resource depletion.
- GDP considers the level of investment in human capital and education.
- GDP focuses solely on economic activities and production.

20. Which limitation of National Income computation arises due to the exclusion of non-market activities and household production?

- Overestimation of economic output
- Difficulty in calculating GDP at factor cost
- Underestimation of economic output and welfare
- Overestimation of economic growth rate

21. Which challenge arises due to the constant changes in the structure of the economy and the introduction of new goods and services?

- Difficulty in calculating inflation rate
- Changes in government policies
- Difficulty in measuring real GDP
- Difficulty in estimating the savings rate

22. In a simple two-sector model of the circular flow, the two sectors are:

- Government and households
- Business firms and households
- Government and business firms
- Foreign sector and households

23. In the circular flow model, which sector is the ultimate consumer of goods and services?

- Business firms
- Households
- Government
- Foreign sector

24. In the circular flow model, which sector supplies factors of production to business firms?

- Government
- Households
- Business firms
- Foreign sector

Answers

1.	a	2.	b	3.	a	4.	a	5.	d
6.	c	7.	c	8.	c	9.	b	10.	a
11.	d	12.	d	13.	b	14.	a	15.	c
16.	a	17.	a	18	c	19.	c	20.	c
21.	c	22.	b	23.	b	24.	b	25.	a
26	b	27.	d	28.	b	29.	a		

UNIT 2

1. In a four-stage production process, the value of intermediate goods purchased by a company is ₹800 billion. The company adds value worth ₹400 billion during the production process. Calculate the total value of the final product.
 - (a) ₹200 billion
 - (b) ₹400 billion
 - (c) ₹800 billion
 - (d) ₹1,200 billion

2. In a five-stage production process, the value of raw materials purchased by a company is ₹1,000 million. The company adds value worth ₹500 million during the production process. Calculate the total value of the final product.
 - (a) ₹500 million
 - (b) ₹1,000 million
 - (c) ₹1,500 million
 - (d) ₹2,000 million

3. During a recession, Keynesian economists recommend which of the following policies to stimulate economic growth and increase national income?
 - (a) Decreasing government spending and raising taxes.
 - (b) Decreasing the money supply to control inflation.
 - (c) Increasing government spending and lowering taxes.
 - (d) Reducing exports to protect domestic industries.

4. In the Keynesian model, what is the role of private investment in determining national income?
 - (a) Private investment has no impact on national income.
 - (b) Private investment solely determines national income.
 - (c) Private investment is a component of aggregate demand affecting national income.
 - (d) Private investment only affects the inflation rate, not national income.

5. According to the Keynesian theory, what can lead to a situation of “underemployment equilibrium” in an economy?
 - (a) When aggregate demand exceeds aggregate supply.
 - (b) When aggregate supply exceeds aggregate demand.
 - (c) When there is full employment in the economy.
 - (d) When aggregate demand is insufficient to create full employment.

6. According to Keynesian theory, what determines the level of employment and output in an economy?
 - (a) Consumer preferences and saving habits
 - (b) Government spending and taxation policies
 - (c) The interaction of aggregate demand and aggregate supply
 - (d) The natural rate of unemployment

7. The concept of “Multiplier Effect in the Keynesian theory suggests that
 - (a) Changes in government spending have a larger impact on National Income than changes in taxes
 - (b) A change in investment leads to a proportionate change in National Income
 - (c) Increases in exports result in higher economic growth employment
 - (d) Changes in consumption have a direct and immediate impact on investment.

8. According to Keynes, in situations of insufficient aggregate demand, the economy may experience:

- (a) Demand-pull inflation
- (b) Cost-push inflation
- (c) Deflation and unemployment
- (d) Stagflation

9. In the two-sector circular flow model, savings by households are equal to:

- (a) Consumption expenditure
- (b) Taxes paid to the government
- (c) Investment by firms
- (d) Government spending

10. The two sector circular flow model assumes that all income earned by household is either spent on consumption or saved, and there is no:

- (a) Government intervention
- (b) Investment by firms
- (c) Financial sector
- (d) Foreign trade

11. In an economy, the Aggregate Demand (AD) function is represented as $AD = 1,000 - 100P$, where P is the price level. Calculate the Aggregate Demand when the price level is ₹5.

- (a) 1,500
- (b) 500
- (c) 1,000
- (d) 2,000

12. The investment multiplier measures the relationship between:

- (a) Consumer spending and investment
- (b) Government spending and investment
- (c) Investment and changes in national income
- (d) Changes in national income and consumer spending

13. The formula to calculate the investment multiplier is:

- (a) Investment Multiplier = $1 / \text{Marginal Propensity to Consume (MPC)}$
- (b) Investment Multiplier = $1 / \text{Marginal Propensity to Save (MPS)}$
- (c) Investment Multiplier = $1 + \text{Marginal Propensity to Consume (MPC)}$
- (d) Investment Multiplier = $1 + \text{Marginal Propensity to Save (MPS)}$

14. If the Marginal Propensity to Save (MPS) is 0.2, what is the value of the investment multiplier?

- (a) 1.2
- (b) 5
- (c) 0.2
- (d) 0.8

15. The investment multiplier indicates that an increase in investment of a certain amount will lead to a/an:

- (a) Smaller increase in national income
- (b) Equal decrease in national income
- (c) Larger increase in national income
- (d) No change in national income

16. The investment multiplier can be used to calculate the total change in income when there is an autonomous increase in investment. Autonomous investment refers to investment that:

- (a) Depends on changes in income
- (b) Does not depend on changes in income
- (c) Is made by the government sector
- (d) Is made by the foreign sector

17. If the investment multiplier is 3, an initial increase in investment of 100 million will lead to a total increase in national income of:

- (a) ₹200 million
- (b) ₹300 million
- (c) ₹400 million
- (d) ₹500 million

18. In the three-sector model, the three main sectors of the economy are:

- Government, households, and foreign trade
- Government, households, and financial institutions
- Households, firms (businesses), and foreign trade
- Households, firms (businesses), and financial institutions

19. The formula for calculating the equilibrium level of income (Y) in the three-sector model is:

- $Y=C+I+G$
- $Y=C+S+T$
- $Y=C+I+NX$
- $Y=C+I-NX$

20. If in the three-sector model, total consumption is 800 million, total investment is 200 million, government expenditure is 300 million, and net exports are 50 million, the equilibrium level of income (Y) would be:

- ₹1,050 million
- ₹1,250 million
- ₹750 million
- ₹1,350 million

21. In the three-sector model, the total income earned by households is divided into three components: consumption expenditure (C), savings (S), and:

- Taxes (T)
- Investment (I)
- Exports (X)
- Government expenditure (G)

22. The equilibrium condition in the three-sector model occurs when:

- Total consumption equals total income
- Total savings equal total investment
- Total consumption plus total taxes plus total savings equal total income
- Total exports equal total imports

23. In the four-sector model, the total income earned by households is divided into four components: consumption expenditure (C), savings (S), taxes (T), and:

- Exports (X)
- Imports (M)
- Investment (I)
- Government expenditure (G)

24. In the four-sector model, the net exports (NX) component represents:

- Total consumption by households
- Total government expenditure
- Total investment by firms
- The difference between exports (X) and imports (M)

25. The formula for calculating national income (Y) in the four-sector model is:

- $Y = C + S$
- $Y = C + T$
- $Y=C+T+I$
- $Y=C+T+I+NX$

26. In the four-sector model, the four main sectors of the economy are:

- Households, firms (businesses), government, and foreign trade
- Households, firms (businesses), government, and financial institutions
- Households, firms (businesses), government, and banks
- Households, firms (businesses), government, and central bank

Answers

1.	b	2.	b	3.	c	4.	c	5.	d
6.	c	7.	a	8.	c	9.	d	10.	b
11.	c	12.	b	13.	b	14.	c	15.	d
16.	b	17.	b	18	a	19.	b	20.	b
21.	a	22.	c	23.	b	24.	d	25.	d
26	a								

MULTIPLE CHOICE QUESTIONS

UNIT 2

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

2. Macroeconomic stabilization may be achieved through

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

3. Which of the following policies of the government fulfils the redistribution function
 - (a) Park 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

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.

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

6. 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

7. When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?

- It is trying to establish stability in an economy
- It is trying to redistribute income and wealth
- It is trying to allocate resources to their most efficient use
- It is creating a source of market failure

8. Government of Emeline Land decides to provide most modern road infrastructure throughout the nation. This can be classified as

- Distribution function
- Allocation function
- Stabilization function
- None of the above

9. Which function does the government perform when it provides transfer payments to offer support to the underprivileged

- Allocation
- Efficiency
- Distribution
- None of the above

10. Which of the following is true in respect of centre and state government finances?

- The centre can tax agricultural income and mineral rights
- Finance commission recommends distribution of taxes between the centre and states
- GST subsumes majority of direct taxes and a few indirect taxes
- IGST is collected by the state governments

11. GST compensation is given to

- to the industries which have made losses due to the introduction of GST
- to compensate for the lower rates of GST on essential items
- to the states to compensate for the loss of revenue due to the introduction of GST
- to compensate for the loss of input tax credit in manufacturing

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

- I and II are correct
- II and III are correct
- I, II and III are correct
- All the above are correct

13. In a federal set up, the stabilization function can be effectively performed by

- Respective state governments
- Ministry of taxes
- The government at the centre
- None of the above

14. Which of the following is concerned with division of economic responsibilities between the central and state Government of India?

- NITI Aayog
- central bank
- Finance Commission
- Parliament

15. Fiscal Federalism refers to_____.

- Organizing and implementing development plans
- Sharing of political power between centers and states
- The management of fiscal policy by a nation
- Division of economic functions and resources among different layers of the government

16. Which one of the following taxes is levied by the state government only?

- Corporation tax
- Wealth tax
- Income tax
- None of the above

17. The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is

- 38 percent
- 41 percent
- 42 percent
- The commission has not submitted its report

18. Which of the following is not a criterion for determining distribution of central taxes among states for 2021-26 period

- Demographic performance
- Forest and ecology
- Infrastructure performance
- Tax and fiscal efforts

19. As per the supreme court verdict in May 2022

- The union has greater powers than the states for enacting GST laws
- The union and state legislatures have “equal, simultaneous powers “to make laws on Goods and Services Tax
- The union legislature’s enactments will prevail in case of a conflict between those of union and states
- The state legislatures can make rules only with the permission of central government

20. Providing social sector services such as health and education is

- the responsibility of the central government
- the responsibility of the respective state governments
- the responsibility of local administrative bodies
- none of the above

Answers

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

UNIT 2

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
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
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
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
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
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
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
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

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

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

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 Of the above statements
 (a) II and III are correct (b) I only is correct
 (c) II only is correct (d) I and III are correct

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

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

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

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

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

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

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.

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

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

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

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

23. 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
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

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

Answers

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)

UNIT 4

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

₹ 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

2. The revenue deficit for country A is

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

3. Fiscal deficit of country A is

(a) 14,000 (b) 24,000 (c) 23,500 (d) None of the above

4. Primary deficit of Country A is

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

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

6. The Appropriation Bill is intended to

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

7. Public debt management aims at

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

8. The railway budget is

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

9. Outcome budgeting

- shares information about the money allocated for various purposes in a budget
- establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators
- establishes a direct link between budgetary performance targets and public account disbursals
- shares information about public policies and programmes under the budget

10. Corporate tax

- is collected by the union government and can be a capital receipt or revenue receipt
- may be collected by the respective states and fall under revenue receipts
- may be collected either by the centre or states and fall under revenue receipts
- is collected by the union government and is a revenue receipt

11. Government borrowings from foreign governments and institutions

- Capital receipt
- Revenue receipt
- Accounts for fiscal deficit
- Any of the above depending on the purpose of borrowing

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

(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

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

13. Revenue deficit is
(a) 23.6 (b) 13.0 (c) 7.0 (d) 2.6

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

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

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

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

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

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

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

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

22. Which of the following is a capital receipt?

<ul style="list-style-type: none"> (a) Licence fee received (c) Assistance from Japan for covid vaccine 	<ul style="list-style-type: none"> (b) Sale proceeds from disinvestment (d) Dividend from a public sector enterprise
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23. Grants given by the central government to state governments is

- (a) A revenue expenditure as it is meant to meet the current expenditure of the states
- (b) A revenue expenditure as it does neither creates any asset, nor reduces any liability of the government
- (c) A capital expenditure because it increase the capital base of the states
- (d) It is a grant and so does not come under revenue expenditure or capital expenditure.

24. Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as

<ul style="list-style-type: none"> (a) RBI credit to states (c) Ways and Means Advances (WMA) 	<ul style="list-style-type: none"> (b) Commercial credit of RBI (d) Short term facility
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25. 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

26. 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)

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

<ul style="list-style-type: none"> (A) Rising unemployment rate (C) Rising inflation rate (E) Falling or stagnant wage for workers (G) Falling tax revenue 	<ul style="list-style-type: none"> (B) Falling unemployment rate (D) Deflation (F) Increasing tax revenue
<ul style="list-style-type: none"> (a) A, B and F are most likely to occur (c) D, E and F are most likely to occur 	<ul style="list-style-type: none"> (b) B, C and F are most likely to occur (d) A, E and G are most likely to occur

28. During recession the fiscal policy of the government should be directed towards

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

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

- increase corporate taxes.
- decrease aggregate demand.
- Increase government purchases.
- None of the above is correct

30. Keynesian economists believe that

- fiscal policy can have very powerful effects in altering aggregate demand, employment and output in an economy
- 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
- Wages are flexible and therefore business fluctuations would be automatically adjusted
- (a) and (b) above

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

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

32. A recession is characterized by

- Declining prices and rising employment
- Declining unemployment and rising prices
- Declining real income and rising unemployment.
- Rising real income and rising prices

33. Which one of the following is an example of fiscal policy?

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

34. Which of the following would illustrate a recognition lag?

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

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

- a relative large increase in GDP and a smaller increase in price
- 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

36. 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

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

37. 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

38. 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.

39. 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

40. 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

41. 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

42. 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

43. 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

44. 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

45. 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

46. 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.

Answers

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)
25	(a)	26	(c)	27	(b)	28	(b)	29	(c)	30	(d)
31	(a)	32	(c)	33	(d)	34	(c)	35	(a)	36	(c)
37	(d)	38	(a)	39	(b)	40	(b)	41	(d)	42	(d)
43	(d)	44	(d)	45	(b)	46	(d)				

MULTIPLE CHOICE QUESTIONS

UNIT 2

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.

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

3. Demand for money is
 - (a) Derived demand
 - (b) Direct demand
 - (c) Real income demand
 - (d) Inverse demand

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

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

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

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

8. Real money is

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

9. The precautionary money balances people want to hold

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

10. Speculative demand for money

- is not determined by interest rates
- is positively related to interest rates
- is negatively related to interest rates
- is determined by general price level

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

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

12. The inventory-theoretic approach to the transactions demand for money

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

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

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

14. Considered demand for money is as an application of a more general theory of demand for capital assets

- Baumol
- James Tobin
- M Keynes
- Milton Friedman

15. The nominal demand for money rises if

- the opportunity costs of money holdings – i.e. bonds and stock returns, r_B and r_E , respectively – decline and vice versa
- 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

Answers:

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

UNIT 2

1. Reserve money is also known as
 - central bank money
 - base money
 - high powered money
 - all the above
2. Choose the correct statement from the following
 - Money is deemed as something held by the public and therefore only currency held by the public is included in money supply.
 - Money is deemed as something held by the public and therefore inter-bank deposits are included in money supply.
 - Since inter-bank deposits are not held by the public, therefore inter-bank deposits are excluded from the measure of money supply.
 - Both (a) and (c) above.
3. Reserve Money is composed of
 - currency in circulation + demand deposits of banks (Current and Saving accounts) + Other deposits with the RBI.
 - currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI.
 - currency in circulation + demand deposits of banks + Other deposits with the RBI.
 - currency in circulation + demand and time deposits of banks + Other deposits with the RBI.
4. M1 is the sum of
 - currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.
 - currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.
 - currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI
 - none of the above

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

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

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.

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

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

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 an 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

11. The money multiplier and the money supply are

- positively related to the excess reserves ratio e.
- negatively related to the excess reserves ratio e.
- not related to the excess reserves ratio e.
- proportional to the excess reserves ratio e.

12. The currency ratio represents

- the behaviour of central bank in the issue of currency.
- the behaviour of central bank in respect cash reserve ratio.
- the behaviour of the public.
- the behaviour of commercial banks in the country.

13. The size of the money multiplier is determined by

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

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)

15. The money multiplier will be large

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

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.

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

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

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.

20. 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

21. 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

22. 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

23. 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

24. 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

25. 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

26. 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)

27. _____ 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

28. 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)

29. 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

30. 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

31. 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

32. Which statement (s) is (are) true about Monetary Policy Committee?
 I. The Reserve Bank of India (RBI) Act, 1934 was amended on June 27, 2016, for giving a statutory backing to the Monetary Policy Framework Agreement and for setting up a Monetary Policy Committee
 II. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of experts required to achieve the inflation target.
 III. The Monetary Policy Committee shall determine the policy rate through consensus from the governor of RBI
 IV. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of bankers chosen for eth purpose
 (a) I only (b) I and II only (c) III and IV (d) III only

Answers:

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)	20	(d)
21	(b)	22	(c)	23	(b)	24	(a)	25	(b)
26	(c)	27	(d)	28	(c)	29	(a)	30	(b)
31	(c)	32	(b)						

MULTIPLE CHOICE QUESTIONS

UNIT 2

- Which of the following does not represent a difference between internal trade and international trade?
 - transactions in multiple currencies
 - homogeneity of customers and currencies
 - differences in legal systems
 - none of the above
- The theory of absolute advantage states that
 - national wealth and power are best served by increasing exports and decreasing imports
 - nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
 - 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
 - differences in absolute advantage explains differences in factor endowments in different countries
- 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
- 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
----------------	---------------	------------------	-------------------
- 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
- According to the theory of comparative advantage
 - trade is a zero-sum game so that the net change in wealth or benefits among the participants is zero.
 - trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive
 - nothing definite can be said about the gains from trade
 - gains from trade depends upon factor endowment and utilization

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

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. 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

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

ANSWERS

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

UNIT 3

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
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
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
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
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.
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

7. A countervailing duty is

- a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country
- charged by importing countries to ensure fair and market-oriented pricing of imported products
- charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies
- All the above

8. Which of the following is an outcome of tariff?

- create obstacles to trade and increase the volume of imports and exports
- domestic consumers enjoy consumer surplus because consumers must now pay only a lower price for the good
- discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes
- increase government revenues of the importing country by more than value of the total tariff it charges

9. SPS measures and TBTs are

- permissible under WTO to protect the interests of countries
- may result in loss of competitive advantage of developing countries
- increases the costs of compliance to the exporting countries
- All the above

10 Which of the following is not a non-tariff barrier.

- Complex documentation requirements
- Import quotas on specific goods
- Countervailing duties charged by importing country
- Pre shipment product inspection and certification requirements

11. Under tariff rate quota

- countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement
- a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate
- lower tariff is charged from goods imported from a country which is given preferential treatment
- none of the above

12. Non -tariff barriers (NTBs) include all of the following except:

- import quotas
- tariffs
- export subsidies
- technical standards of products

13. Which of the following culminated in the establishment of the World Trade Organization?

- The Doha Round
- The Tokyo Round
- The Uruguay Round
- The Kennedy Round

14. 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

15. 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

16. '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 exports

17. 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

18. 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

19. 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

20. 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

21. 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

22. 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

23. 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

ANSWERS

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

UNIT 4

- 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?
 - The US decides not to import from Country X
 - An increase in remittances from the employees who are employed abroad to their families in the home country
 - Increased imports by consumers of Country X
 - Repayment of foreign debts by Country X
- 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?
 - The demand curve for dollars shifts to the right and Indian Rupee appreciates
 - The supply of US dollars shrinks and, therefore, import prices decrease
 - The demand curve for dollars shifts to the right and Indian Rupee depreciates
 - The demand curve for dollars shifts to the left and leads to an increase in exchange rate
- '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
 - wholly correct
 - partially correct
 - wholly incorrect
 - None of the above
- Match the following by choosing the term which has the same meaning

i) floating exchange rate	fixed exchange rate
iii) pegged exchange rate	depreciation
iv) devaluation	b. revaluation
v) appreciation	c. flexible exchange rate

 - (i c); (ii d); (iii b); (iv a)(b)
 - (i b); (ii a); (iii d); (iv c)
 - (i a); (ii d); (iii b); (iv c)(d)
 - (i d); (ii a); (iii b); (iv c)
- Choose the correct statement
 - An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency
 - the fixed exchange rate regime is said to be efficient and highly transparent.
 - A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency
 - Exchange rates are generally fixed by the central bank of the country
- Which of the following statements is true?
 - Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency
 - Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency
 - Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.
 - All the above

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

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 service
- (d) (a) and (c) above

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

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

11. 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.

12. 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

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

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

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

- Brownfield investment
- Merger and acquisition
- Greenfield investment
- Strategic alliances

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

- Mauritius
- USA
- Japan
- USA

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

- promote rural development
- increase access to modern technology
- protect domestic industries
- keep inflation under control

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

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

18. A foreign direct investor

- May enter India only through automatic route
- May enter India only through government route
- May enter India only through equity in domestic enterprises
- Any of the above

19. Foreign investments are prohibited in

- Power generation and distribution
- Highways and waterways
- Chit funds and Nidhi company
- Airports and air transport

20. Which of the following statement is false in respect of FPI?

- portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments
- is effected largely by individuals and institutions through the mechanism of capital market
- is difficult to recover as it involves purely long-term investments and the investors have controlling interest
- investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.

ANSWERS

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

MULTIPLE CHOICE QUESTIONS

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

2. The first wave of liberalization starts in India
 - (a) In 1951
 - (b) In 1980's
 - (c) In 1990
 - (d) In 1966

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

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

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

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

7. In terms of Ease of Doing Business in 2020 India ranks
 - (a) 63
 - (b) 77
 - (c) 45
 - (d) None of the above

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 (c) the low growth of the economy during British period marked by an average of 3.5 percent

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

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

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'

12. In the context of the new economic policy of 1991, the term '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 private sector

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

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

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

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

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

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

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)