



CA Foundation - New Syllabus  
Business Economics

**Micro-Economics MCQs**

MCQ Compiler (4<sup>th</sup> Edition)  
by CA Mohnish Vora (MVSIR)

# INDEX



## MACRO ECONOMICS - MCQS

Chp No.	Chapter Name	No. of MCQs	Approx. Marks	Page No.
6	Determination of National Income	262	15 Marks	6.1 - 6.48
7	Public Finance	279	10 Marks	7.1 - 7.41
8	Money Market	188	10 Marks	8.1 - 8.28
9	International Trade	216	10 Marks	9.1 - 9.36
10	Indian Economy	73	10 Marks	10.1 - 10.11
Total		1,018 MCQs	50 - 55 Marks	



CA Foundation – New Syllabus  
Business Economics

Chapter 6  
Determination of National  
Income

New MCQs by MVSIR

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New MCQs by MVSIR – Set 1

UNIT 1

1 Which of the following are the usefulness and Significance of National Income Estimates?

- a) It provides a framework for analyzing the short run performance
- b) Economic welfare depends on magnitude and distribution of national income
- c) Provides quantitative basis for assessing, choosing & evaluating economic policies
- d) All of the above

2 Nominal GDP changes due to\_\_

- a) Changes in prices of most goods
- b) Changes in production of most goods
- c) Changes in government
- d) Both a & b

3 Which Statement is correct regarding Real GDP?

- a) It is an inflation adjusted measure
- b) It is not affected by changes in prices;
- c) It changes only when there is change in the amount of output produced in the economy.
- d) All of the above

4 What is Measured using the Value Added Method of calculating National income?

- a) Contribution of production units
- b) Relative contribution of factor owners
- c) Flow of consumption and investment expenditures
- d) None of the above

5 What is Measured using Income Method of calculating National Income?

- a) Flow of consumption and investment expenditures
- b) Relative contribution of factor owners
- c) Contribution of production units
- d) All of the above

6 Who is responsible for compilation of National accounts statistics ?

- a) Ministry of Corporate Affairs
- b) Ministry of External Affairs
- c) Ministry of Statistics & Programme Implementation
- d) Ministry of National Income

7 Firms produce goods & services with help of factor services. This comes under which phase of circular flow of income?

- a) Production Phase
- b) Income Phase
- c) Expenditure phase
- d) None of the above

8 The flow of factor incomes in the form of rent, wages, interest and profits from firms to the households occurs under which Phase of circular flow of income?

- a) Expenditure phase
- b) Production Phase
- c) Income phase
- d) None of the above

9 GDP Deflator =

- a)  $(\text{Real GDP} / \text{Nominal GDP}) \times 100$
- b)  $(\text{Nominal GDP} / \text{Real GDP}) \times 100$
- c)  $(\text{Real GDP} \times \text{Nominal GDP}) / 100$
- d)  $(\text{Nominal GDP} \times \text{Real GDP}) / 100$

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10 Profits earned by Apple from its Indian manufacturing operations is part of \_\_\_\_\_

- a) GDP of USA
- b) GNP of USA
- c) GDP of India
- d) Both b & c

11 Basic Price =

- a) Basic price = factor cost + Production taxes - Production subsidy
- b) Basic price = factor cost - Production taxes + Production subsidy
- c) Basic price = Market Price + Production taxes - Production subsidy
- d) Basic price = factor cost + Production taxes - Production subsidy

12 If NFIA is positive, then national income will be \_\_\_\_\_

- a) Less than domestic factor income
- b) Greater than domestic factor incomes
- c) Equal to domestic factor incomes
- d) None of the above

13 \_\_\_\_\_ is a measure of a country's economic output per person

- a) Personal Income
- b) Private Income
- c) GDP Per Capita
- d) Disposable Personal Income

14 Personal Income is the income received by the \_\_\_\_\_

- a) Business Sector
- b) Household Sector
- c) Household Sector including Non-Profit Institutions Serving Households
- d) All sectors of economy

15 Which of the following is correct Formula of Net Domestic Product at Factor Cost (NDP FC) ?

- a)  $\text{NDP MP} - \text{Indirect Taxes} + \text{Subsidies}$
- b)  $\text{NDP MP} - \text{Net Indirect Taxes}$
- c)  $\text{Compensation of employees} + \text{Operating Surplus (rent} + \text{interest} + \text{profit)} + \text{Mixed Income of Self-employed}$
- d) All of the above

16 Personal Income includes

- a) income received but not earned
- b) income earned but not received.
- c) Both b & c
- d) Indirect Taxes

<b>17</b>	<b>Corporate Profit includes-</b>
a) Corporate Tax b) Dividend c) Retained Earnings d) All of the above	

<b>18</b>	<b>Land and residential buildings purchased or constructed by households are a part of ____</b>
a) Private Final Consumption Expenditure b) Government Final Consumption Expenditure c) Gross Domestic Capital Formation d) Private Final Consumption Expenditure	

<b>19</b>	<b>Income method for calculating National Income may be most suitable for _____</b>
a) commodity producing sectors like agriculture and manufacturing. b) developed economies where data in respect of factor income is readily available. c) Both a & b d) agricultural sector	

<b>20</b>	<b>In preparation of state income, certain activities such as railways, communications, etc that cut across state boundaries, &amp; thus their economic contribution cannot be assigned to any one state directly are known as</b>
a) Super Sectors b) Super State Sectors c) Supra Regional Sectors d) None of the above	

<b>You are given the following data on an economy in millions</b>	
Consumer Expenditure (inclusive of indirect taxes)	110
Investment	20
Government Expenditure (inclusive of transfer payments)	70
Exports	20
Imports	50
Net Property Income from abroad	10
Transfer payments	20
Indirect taxes	30
Population	0.5

**Answer the Questions from 21 to 24**

<b>21</b>	<b>Calculate the Gross Domestic Product at market prices.</b>
a) 120 million b) 160 million c) 150 million d) 260 million	

<b>22</b>	<b>Calculate the Gross National Income at market prices.</b>
a) 160 million b) 120 million c) 150 million d) 260 million	

<b>23</b>	<b>Calculate the Gross Domestic Product at factor cost.</b>
a) 160 million b) 120 million c) 150 million d) 260 million	

<b>24</b>	<b>Calculate the per capita Gross National Income at factor cost</b>
a) 160 million b) 260 million c) 150 million d) 100 million	

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25 The nominal and real GDP of a country in a particular year are Rs. 3000 Crores and Rs. 4700 Crores respectively. Calculate GDP deflator.

- a) 63.83
- b) 156.66
- c) 61.83
- d) 154.66

26 Calculate Net Domestic Product at Factor Cost from the following data:

Wages	7142
Mixed Income	450
Rent	541
Salaries	8912
Interest	1013
Profit	714

- a) 16746
- b) 15318
- c) 18772
- d) 14214

Sales by firm B to general government	300
Sales by firm A	1500
Sales by firm B to households	1350
Change in stock of firm A	200
Closing stock of firm B	140
Opening stock of firm B	130
Purchases by firm A	270
Indirect taxes paid by both the firms	375
Consumption of fixed capital	720
Sales by firm A to B	300

Using the information given in the above table, answer the questions from 27 to 29,

27 Calculate the Value added by firm A and firm B.

- a) A - 1430 & B - 1360
- b) A - 1360 & B - 1430
- c) A - 1030 & B - 1940
- d) None of the above

28 Calculate Gross Domestic Product at Market Price.

- a) 2970
- b) 2790
- c) 2990
- d) None

29 Calculate Net Domestic Price at Factor Cost:

- a) 1875
- b) 1895
- c) 1750
- d) 1695

Particulars	(Rs.) In Crore
Net indirect tax	208
Consumption of fixed capital	42
Net factor income from abroad	-40
Rent	311
Profits	892
Interest	81
Loyalty	6
Wages and salary	489
Employer's contribution to Social Security Scheme	50

30 Calculate GDPMP & NNPFC from the above data:

- a) 1789 & 2079 respectively
- b) 2079 & 1789 respectively
- c) 1663 & 1789 respectively
- d) 1789 & 1663 respectively

31 Compute the amount of subsidies from following data:  
GDP at market price (Rs. in crores) 7,79,567  
Indirect Taxes (Rs. in crores) 4,54,367  
GDP at factor cost (Rs. in crores) 3,60,815

- a) Rs. 15,94,749 Crores
- b) Rs. 35,615 Crores
- c) Rs. 6,86,015 Crores
- d) None

32 Calculate National Income by Value Added Method with the help of following data-

Sales	700
Opening stock	500
Intermediate Consumption	350
Closing Stock	400
Net Factor Income from Abroad	30
Depreciation	150
Excise Tax	110
Subsidies	50

- a) 270
- b) 100
- c) 70
- d) None

33 Calculate Operating Surplus

Compensation of employees	200
Intermediate Consumption	800
Rent	600
Interest	500
Consumption of fixed capital	300
Net Indirect Taxes	400
Mixed Income	700
Sales	2500

- a) 270
- b) 100
- c) 70
- d) None

34 Calculate National Income by Expenditure method

Private Final Consumption Expenditure	1000
Government Final Consumption Expenditure	800
Net factor Income from abroad	40
Net Indirect Taxes	60
Net Exports	-80
Net Domestic Capital Formation	70
National debt Interest	50
Net Current Transfer to abroad	20

- a) 1890
- b) 1850
- c) 1830
- d) 2050

35 Calculate Gross National Disposable income from the following data (in Rs. Crores)

NDP at factor cost	6000
Net factor income to abroad	-300
Consumption of fixed capital	400
Current transfers from government	200
Net current transfers from rest of the world	500
Indirect taxes	700
Subsidies	600
NDP at factor cost	6000

- a) 7900
- b) 6700
- c) 7300
- d) 5700



Answer Key – Chapter 6 – New MCQS – set 1 (Unit – 1)

1	D	6	C	11	A	16	A	21	C	26	C	31	B
2	D	7	A	12	B	17	D	22	A	27	A	32	C
3	D	8	C	13	C	18	C	23	B	28	B	33	B
4	A	9	B	14	C	19	B	24	B	29	D	34	A
5	B	10	D	15	D	20	C	25	A	30	B	35	B

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**New MCQs by MVSIR – Set 1**

**UNIT 2**

**1** Keynesian theory of income determination is presented in \_\_\_\_\_

- a) 2 Models
- b) 3 Models
- c) 4 Models
- d) 5 Models

**2** Before Keynes, classical economists said that \_\_\_\_\_

- a) economy is self-regulating
- b) always capable of automatically achieving equilibrium at 'natural level' of real GDP
- c) Both a & b
- d) None of the above

**3** The slope of consumption line is given by \_\_\_\_\_

- a) Average Propensity to Consume
- b) Marginal Propensity to Consume
- c) Average Propensity to Save
- d) Marginal Propensity to Save

**4** Savings is an \_\_\_\_\_ of the level of income

- a) Increasing function
- b) Decreasing function
- c) Constant Function
- d) None of the above

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**5** The more powerful leakages are - the smaller will be value of multiplier. The leakages are caused due to:

- a) progressive rates of taxation which result in no appreciable increase in consumption despite increase in income
- b) high liquidity preference and idle saving or holding of cash balances
- c) scarcity of goods and services despite having high MPC
- d) All of the above

**6** When investment in an economy increases from Rs. 10,000 crores to Rs. 14,000 crores and as a result of this national income rises from Rs. 80,000 crores to Rs. 92,000 crores, compute investment multiplier.

- a) 4
- b) 3
- c) 2
- d) 6

**7** If the leakages are greater than the injections, then national income will

- a) Rise
- b) Fall
- c) Be at equilibrium
- d) Any of the above

**8** Given Consumption function  $C = 300 + 0.75Y$ ; Investment = Rs. 800; Net Imports = Rs. 100 Calculate equilibrium level of output.

- a) Rs. 2000
- b) Rs. 8000
- c) Rs. 4000
- d) Rs. 5000

The equilibrium level of income of an economy is Rs. 2,000 crores. The autonomous consumption expenditure is equal to Rs.100 crores and investment expenditure is Rs.500 crores.  
From the above information, answer the questions from 9 to 11

9 Calculate the Consumption expenditure level of National Income.

- a) Rs. 1500 Crores
- b) Rs. 400 Crores
- c) Rs. 200 Crores
- d) Rs. 1000 Crores

10 Calculate Marginal propensity to save (MPS) and Marginal propensity to consume (MPC) respectively.

- a) MPS = 0.4, MPC = 0.6
- b) MPS = 0.7, MPC = 0.3
- c) MPS = 0.3, MPC = 0.7
- d) MPS = 0.6, MPC = 0.4

11 Calculate Break-even level of Income.

- a) 0.33
- b) 333.33
- c) 33.33
- d) 3.33

12 Which of the following does Government sector adds to the circular flow of 2 sector model:

- a) Taxes on households and business sector
- b) Transfer payments to household sector and subsidy payments to business sector
- c) Govt purchases G/S from business sector and factors of prod from household
- d) All of the above

13 If aggregate demand, is greater than the full employment level of output, then we say there is \_\_\_\_\_, thus leading to '\_\_\_\_'

- a) Deficient Demand, Inflationary Gap
- b) Excess Demand, Inflationary Gap
- c) Deficient Demand, Deflationary Gap
- d) Excess Demand, Contractionary Gap

14 Suppose Consumption function:  $C = 40 + 0.8 Y$  and Investment is given by  $I = 30 + 0.4 Y$  What will be the equilibrium level of national Income?

- a) 140
- b) 350
- c) 280
- d) None of the above

Suppose an economy:

Consumption Function (C)	$200 + 0.6 Y_d$ , where $Y_d = Y - T$
Autonomous Investment (I)	Rs. 600 crores
Government Expenditure G	Rs. 900 crores
Taxes (T)	Rs.100 crores
Exports (X)	Rs.200 crores
Import Function (M)	$50 + 0.3 Y$

Where Y and  $Y_d$  National Income and Personal Disposable Income respectively. All the figures are in Rupees.

From the above information, answer the questions from 15 to 17

**15 Calculate Equilibrium level of GDP.**

a)  $Y = 2755.4$   
 b)  $Y = 2577.4$   
 c)  $Y = 2557.4$   
 d) None of the above

**16 Calculate Disposable Income .**

a)  $Y_d = 2457.14$   
 b)  $Y_d = 2475.14$   
 c)  $Y_d = 2450.24$   
 d)  $Y_d = 2470.24$

**17 Calculate Break-even level of Income.**

a) 671.14 Crore  
 b) 617.14 Crore  
 c) 651.14 Crore  
 d) 615.14 Crore

**18 \_\_\_\_\_ gives rise to a 'deflationary gap' or 'recessionary gap' or 'contractionary gap'.**

a) Sufficient Demand  
 b) Excess Demand  
 c) Deficient demand  
 d) None of the above

**19 How do imports affects investment multiplier?**

a) The greater will be propensity to import, the lower will be autonomous expenditure multiplier  
 b) The lower will be propensity to import, the greater will be autonomous expenditure multiplier  
 c) The greater will be propensity to import, the greater will be autonomous expenditure multiplier  
 d) The lower will be propensity to import, the lower will be autonomous expenditure multiplier

**20** If saving function  $S = -10 + 0.2Y$  and autonomous investment  $I = 50$  Crores. Find out  
 i) equilibrium level of income, &  
 ii) If "I" increases by Rs 5 cr, then new level of income respectively.

- a) i)  $Y = \text{Rs } 300 \text{ cr}$ , ii)  $Y = \text{Rs } 305 \text{ cr}$   
 b) i)  $Y = \text{Rs } 305 \text{ cr}$ , ii)  $Y = \text{Rs } 310 \text{ cr}$   
 c) i)  $Y = \text{Rs } 300 \text{ cr}$ , ii)  $Y = \text{Rs } 325 \text{ cr}$   
 d) i)  $Y = \text{Rs } 305 \text{ cr}$ , ii)  $Y = \text{Rs } 300 \text{ cr}$

**21 Calculate the Marginal Propensity to Consume (MPC) and Marginal Propensity to Save (MPS) from the following data:**

Income (Y)	Consumption (C)	Level
Rs. 8,000	Rs. 6,000	Initial level
Rs. 12,000	Rs. 9,000	Changed level

- a)  $MPC = 0.75$ ,  $MPS = 0.25$   
 b)  $MPC = 0.25$ ,  $MPS = 0.75$   
 c)  $MPC = 1.25$ ,  $MPS = 1.75$   
 d)  $MPC = 1.75$ ,  $MPS = 1.25$

**22** Suppose MPC is 0.8 and it is planned to increase National Income by Rs. 3000 Cr, then how much increase in investment is required to fulfill this target?

- a)  $\Delta I = 600 \text{ Crore}$   
 b)  $\Delta I = 3750 \text{ Crore}$   
 c)  $\Delta I = 2400 \text{ Crore}$   
 d)  $\Delta I = 2200 \text{ Crore}$

**23** An increase in investment by Rs. 700 crore leads to increase in national income by Rs 3,500 cr. Calculate marginal propensity to consume & change in saving.

- a)  $MPC = 0.8$ ,  $\Delta S = 2800 \text{ Crore}$   
 b)  $MPC = 0.8$ ,  $\Delta S = 700 \text{ Crore}$   
 c)  $MPC = 0.2$ ,  $\Delta S = 2800 \text{ Crore}$   
 d)  $MPC = 0.2$ ,  $\Delta S = 700 \text{ Crore}$

The equation of 'consumption function' of an economy is as follows:  
 $C = Rs\ 450 + 0.70y$   
From the above information you are required to answer questions from 24 to 26.

24 You are required to compute the consumption when disposable income ( $y$ ) is Rs 3,500 and Rs 5,800 respectively.

- a) Consumption = 2900 , 4510
- b) Consumption = 4510 , 2900
- c) Consumption = 2600 , 4510
- d) Consumption = 3900 , 6250

25 Saving when disposable income ( $y$ ) is Rs 3,500 and Rs 5,500.

- a) Saving = 900, 1500
- b) Saving = 1200, 600
- c) Saving = 600, 1200
- d) Saving = 1500, 900

26 Amount induced when disposable income is Rs 3,200.

- a)  $I = 510$
- b)  $I = 2690$
- c)  $I = 2240$
- d)  $I = 600$

27 Given Consumption function  $C = 300 + 0.75Y$ ;  
Investment = Rs. 800; Net Imports = Rs. 100  
Calculate equilibrium level of output.

- a)  $Y = Rs. 6000$
- b)  $Y = Rs. 5000$
- c)  $Y = Rs. 4000$
- d)  $Y = Rs. 7000$

For an Economy with the following specifications Consumption,  
 $C = 50 + 0.75 Y_d$   
Investment,  $I = 100$   
Government Expenditure,  $G = 200$   
Transfer Payments,  $R = 110$   
Income Tax =  $0.2Y$   
From above info, ans ques from 28 to 30.

28 Find out the equilibrium of income and the value of expenditure multiplier.

- a)  $Y = 432.5$  Crores, Expenditure Multiplier = 1.67
- b)  $Y = 1081.25$  Crores, Expenditure Multiplier = 2.5
- c)  $Y = 1081.25$  Crores, Expenditure Multiplier = 1.67
- d)  $Y = 432.5$  Crores, Expenditure Multiplier = 2.5

29 If autonomous taxes worth Rs. 25 Crores are added. Find out equilibrium level of Income.

- a) 1034.375 crores
- b) 1043.375 Crores
- c) 689.58 Crores
- d) 698.58 Crores

30 Net Exports of equilibrium level

- a) 691.87
- b) 569
- c) 889.06
- d) -113.37

An Economy is characterized by the following equations:

$$C = 40 + 0.6Y_d, F = 20, G = 40, TY = 2, X = 30$$

$$M = 25 + 0.02Y$$

From the above info, answer the questions 31 & 32.

31 What is the equilibrium income.

- a) 247.142
- b) 103.8
- c) 274.142
- d) 130.8

31	Calculate trade balance.
a) 5 Cr. b) 4.94 Cr. c) 9.94 Cr. d) 6.94 Cr.	

32	Calculate foreign trade multiplier.
a) 2.83 b) 2.38 c) 0.42 d) 0.24	

Suppose in an economy  
Consumption Function,  
 $C = 170 + 0.80Y$   
Investment spending,  $I = 200$   
Government Spending,  $G = 150$   
Tax,  $T_x = 30 + 0.30Y$   
Transfer payments,  $Tr = 60$   
Exports,  $X = 45$   
Imports,  $M = 20 + 0.2Y$   
From the above information you are required to answer questions from 33 to 36

33	Calculate the equilibrium level of national income
a) 889.06 b) 691.87 c) 113.37 d) 569	

34	Consumption of equilibrium level
a) 889.06 b) 113.37 c) 691.87 d) 569	

35	The value of Investment Multiplier is given by-
a) $K = \Delta I / \Delta Y$ b) $K = \Delta I \times \Delta Y$ c) $K = \Delta Y \times \Delta I$ d) $K = \Delta Y / \Delta I$	

36	When MPC rises, Investment multiplier _____
a) Rises b) Falls c) Remains same d) MPC & k are not related	

37	Keynes assumed that
a) MPC will always be equal to 1 b) MPC will always be more than 1 c) MPC will always be less than 1 d) MPC will always be less than 0	

38	Higher the value of Marginal Propensity to Import (m) _____ the value of multiplier
a) Higher b) Lower c) Same d) Can't say	

**Answer Key – Chapter 6 - New MCQs – Set 1 (Unit – 2)**

1	B	6	B	11	B	16	A	21	B	26	A	31	A	36	A
2	C	7	B	12	D	17	B	22	A	27	C	32	B	37	C
3	B	8	C	13	B	18	C	23	B	28	B	33	A	38	B
4	A	9	A	14	A	19	A	24	A	29	A	34	C		
5	D	10	C	15	C	20	C	25	C	30	D	35	D		

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**New MCQs by MVSIR – Set 2**

**UNIT 1**

**1** How will the following be treated in GDP & GNP- Profits earned by Company Y, an Indian company in UK .

- a) Included in India's GDP
- b) Included in UK's GDP
- c) Included in India's GNP
- d) Both b & c

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**2** How GDP and GNP differ in their treatment of international transaction?

- a) GNP includes earnings of Indian corporations overseas and Indian residents working overseas but GDP excludes net factor income from abroad.
- b) GNP includes earnings of Indian corporations overseas and Indian residents working overseas and GDP includes net factor income from abroad.
- c) GNP excludes earnings of Indian corporations overseas and Indian residents working overseas and GDP includes net factor income from abroad.
- d) GNP excludes earnings of Indian corporations overseas and Indian residents working overseas but GDP excludes net factor income from abroad.

**3** Transfer payments are excluded from calculation of National Income because \_\_\_\_\_

- a) These payments relate to the production of current year
- b) These payments made without goods or services being received in return
- c) Both b & c
- d) They are already included in value of final goods.

**4** \_\_\_\_\_ like excise duties, customs, sales tax, service tax etc., are levied by the government on goods and services and are generally related to the quantum of production.

- a) production taxes
- b) product taxes
- c) Both a and b
- d) None of the above

**5** Calculate value of average propensity to save when-  
C = 350 cr , Y = 1000 cr, I = 200 cr

- a) 0.35
- b) 0.20
- c) 0.65
- d) 0.80

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**6** What are the conceptual problems confronted in estimating national income?

- a) lack of an agreed definition of national income,
- b) accurate distinction between final goods and intermediate goods
- c) issue of transfer payments
- d) All of the above

**7** A sold a used car to B and receives Rs. 60,000. How much of the sale proceeds will be included in national income calculation?

- a) Full amount of sale proceeds of Rs. 60,000 will be included in national income.
- b) 50% of sale proceeds of Rs 60,000 will be included in national income.
- c) No part of the used car sales proceeds of Rs 60,000 will be included in national income calculation because sale of a used car represents transfer of existing asset which was produced during some earlier year and was accounted in the national income calculation of that year.
- d) None of the above

**8** How are the following transactions treated in National Income Calculation?  
Fees paid to real estate agents and lawyers.

- a) Fees paid to real estate agents and lawyers represent current production and, therefore, are included in national income.
- b) Fees paid to real estate agents and lawyers do not represent current production and, therefore, are excluded in national income.
- c) Excluded sometimes
- d) None of the above

**9** How are the following transactions treated in National Income Calculation?  
Electric power sold to a consumer household.

- a) Electric power sold to a consumer require further processing and undergo further transformation before use. Once a final goods has been sold, it passes out of the active economic flow. It will be excluded in national income.
- b) Electric power sold to a consumer does not require any further processing and does not undergo any further transformation before use. Once a final goods has been sold, it passes out of the active economic flow. It will be included in national income.
- c) Electric power sold to a consumer require further processing and undergo further transformation before use. Once a final goods has been sold, it passes out of the active economic flow. It will be included in national income.
- d) None of the above

**10** How are the following transactions treated in national income calculation?  
Electricity sold to a steel plant

- a) Being an intermediate good, electricity sold to a steel plant will not be included in national income calculation.
- b) Being an intermediate good, electricity sold to a steel plant will be included in national income calculation.
- c) Being final good, electricity sold to a steel plant will be included in national income calculation.
- d) None of the above



11 \_\_\_\_\_ is a part of country's total expenditure which is not consumed but added to the nation's fixed tangible assets and stocks

- a) Personal Final Consumption Expenditure
- b) Government Final Consumption Expenditure
- c) Gross Investment
- d) Personal Income

12 How are the following transactions treated in national income calculation?  
A car manufacturer procuring parts and components from the market

- a) Value of parts and components procured from market by a car manufacturer will be included in national income calculation because these are intermediate goods used in car production.
- b) Value of parts and components procured from market by a car manufacturer will not be included in national income calculation because these are final goods used in car production.
- c) Value of parts and components procured from market by a car manufacturer will not be included in national income calculation because these are intermediate goods used in car production.
- d) None of the above

13 How are the following transactions treated in national income calculation?  
A computer producer buys a robot produced in the same country and uses it in production of computers.

- a) The value of the robot would be included in national income calculation because the computer producer is the "final consumer" of the robot and the robot is not resold in the market after value addition.
- b) The value of the robot would be excluded in national income calculation because the computer producer is the "final consumer" of the robot and the robot is resold in the market after value addition.
- c) The value of the robot would be excluded in national income calculation because the computer producer is the "intermediate consumer" of the robot and the robot is resold in the market after value addition.
- d) None of the above

14 \_\_\_\_\_ is a measure of actual current income receipts of persons from all sources which may or may not be earned from productive activities during a given period of time. It is income 'actually paid out' to household sector, but not necessarily earned.

- a) Personal Income
- b) Disposable Personal Income
- c) Gross investment
- d) Both a and b

15	_____ is a measure of amount of money in hands of individuals that is available for their consumption or savings.	19	In the _____ there is a flow of factor incomes in the form of rent, wages, interest and profits from firms to the households.
a) Personal Income b) Disposable Personal Income c) Net investment d) None of the above		a) production phase b) Expenditure phase c) disposition phase d) income or distribution phase	
16	For an Economy $C = 40 + 0.75Y_d$ , $I = 60$ , $G = 75$ , Transfer Payment = 100, Income Tax = $0.2 Y$ . Calculate the equilibrium of Income.	20	Suppose in an economy $C = 100 + b(Y - 50 - t.Y)$ ; $I = 50$ ; $G = 50$ ; $X = 10$ ; $M = 5 + 0.1Y$ ; $MPC (b) = 0.8$ ; Proportional income tax rate $(t) = 0.25$ . Answer the ques 20 & 21 from above data
a) 625 cr b) 635 cr c) 721 cr d) 731 cr		Find the equilibrium national income, foreign trade multiplier, equilibrium value of imports respectively.	
17	Given the following equations: $C = 50 + 0.6Y_d$ , $I = 160$ , $T = 30$ , $G = 28$ , $X - M = 20 - 0.05 Y$ a) Find the equilibrium level of income. b) Find the net exports at equilibrium.	a) 340, 2, 36 b) 380, 2, 34 c) 350, 2, 32 d) 330, 2, 38	
a) 533.33 Crore ; -6.66 Crore b) 513.33 Crore ; -5.66 Crore c) 633.33 Crore ; -6.66 Crore d) 613.33 Crore ; -5.66 Crore		21	If equilibrium national income falls short of full employment income by Rs. 50, how much government should increase its expenditure to attain full - employment?
18	An Economy is characterised by the following equations: Consumption $(C) = 100 + 0.9 Y_d$ Investment $(I) = 100$ Government Expenditure $(G) = 120$ Tax $(T) = 50$ $X$ (Exports) = 200 $M$ (Imports) = $100 + 0.15 Y$ i. What is the equilibrium Income? ii. Calculate trade balance. iii. What is the value of Foreign Trade Multiplier?	a) 20 b) 25 c) 35 d) 40	
a) 1400; -125; 2 b) 1500; -125; 3 c) 1500; -125; 4 d) 1400; -125; 3		22	The state level estimates are prepared by the _____
		a) Ministry of Corporate Affairs b) State Income Units of the respective State Directorates of Economics and Statistics (DESS) c) Central Statistics Organization d) None of the above	

23

Suppose you are given following information  
 $C = 10 + 0.8Y_d$   
 Tax,  $T = 50$   
 Investment spending,  $I = 135$   
 Government Spending,  $G = 60$   
 Exports,  $X = 35$   
 Imports,  $M = 0.05 Y$   
 Where  $Y$  and  $Y_d$  are income and personal disposable income respectively.

Find the equilibrium level of income and net exports.

- a) 800 & -4
- b) 400 & -5
- c) 800 & -5
- d) 400 & -4

24

An economy is characterized by the following equation  
 Consumption,  $C = 60 + 0.9Y_d$   
 Investment,  $I = 10$   
 Government expenditure,  $G = 10$   
 Tax,  $T = 0$   
 Exports,  $X = 20$   
 Imports,  $M = 10 + 0.05 Y$   
 Find equilibrium income and trade balance.

- a) 600 & -20
- b) 700 & -30
- c) 600 & 20
- d) 700 & 30

25

Find nominal GDP if real GDP = 450 and price index = 120

- a) 540
- b) 375
- c) 504
- d) 357

26

Suppose nominal GNP of a country in year 2010 is given at Rs. 600 Crores and price index is given as base year 2010 is 100. Now let the nominal GDP increases to Rs. 1200 Crores in year 2018 and price index rises to 110, find out real GDP?

- a) 1320 Crores
- b) 1230 Crores
- c) 1,090.9 Crores
- d) 1,900.9 Crores

27

The nominal and real GDP respectively of a country in a particular year are 5000 Crores and 6000 Crores respectively. Calculate GDP deflator and analyze the on the level of prices of the year in comparison with the base year.

- a) The price level has risen since GDP deflator is less than 100 at 83.33
- b) The price level has fallen since GDP deflator is less than 100 at 83.33
- c) The price level has risen since GDP deflator is more than 100 at 120
- d) The price level has fallen since GDP deflator is less than 100 at 120

The Nominal GDP and Real GDP of a country in the financial year 2018-19 were Rs1,500 crore and Rs 1,200 crore respectively, answer the ques 28 and 29 using the above data.

28

Calculate GDP deflator in the financial year 2018-19 and comment.

- a) 125
- b) 80
- c) 132
- d) None

<b>29</b>	Calculate Inflation rate in the financial year 2019-20 assuming. GDP deflator rate in this year is 140 as compared to the year 2018-19.
a) 75% b) 12% c) 6.06% d) None	

<b>30</b>	<b>From the following data, calculate NNPFc</b>	
	Operating surplus	2,000
	Mixed income of self-employed	1,100
	Rent	550
	Profit	800
	Net indirect tax	450
	Consumption of fixed capital	400
	Net factor income from abroad	-50
	Compensation of employees	1,000
a) 4,050 b) 5,050 c) 4,950 d) 5,950		

<b>31</b>	Calculate the aggregate value of depreciation when the GDP at market price of a country in a particular year was Rs. 1,100 Crores. Net Factor Income from Abroad was Rs. 100 Crores. The value of Indirect taxes - Subsidies was Rs. 150 Crores and National Income was Rs. 850 Crores.
a) 200 b) 300 c) 400 d) 500	

<b>The following information is related to an economy:</b>	
Particulars	(Rs.) In Crore
Domestic Sales	3600
Opening Stock	800
Exports	1000
Depreciation	300
Closing Stock	200
Net indirect tax	400
Intermediate consumption	600
Net factor income from abroad	10
Answer the MCQs 32(i) to 32(v) as per above table	

<b>32 (i)</b>	<b>Calculate the Gross Value of Output (GVOMP)</b>
a) 4000 b) 5200 c) 2500 d) 4500	

<b>32 (ii)</b>	<b>Calculate the Gross Value Added (GVAMP)</b>
a) 3900 b) 4600 c) 5800 d) 3400	

<b>32 (iii)</b>	<b>Calculate the Net Value Added (NVAMP)</b>
a) 3500 b) 3100 c) 5200 d) 4000	

<b>32 (iv)</b>	<b>Calculate the Net Domestic Product (NDPFc)</b>
a) 3500 b) 2700 c) 3100 d) 4800	

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32	Calculate the Net National Product (NNPFC)
(v)	
a)	2690
b)	3510
c)	4810
d)	2710

33	Calculate the GNP at market price using value added method with the help of following data -																		
<table border="1"> <thead> <tr> <th>Particulars</th> <th>(Rs.) In Crore</th> </tr> </thead> <tbody> <tr> <td>Domestic Sales</td> <td>3600</td> </tr> <tr> <td>Opening Stock</td> <td>800</td> </tr> <tr> <td>Exports</td> <td>1000</td> </tr> <tr> <td>Depreciation</td> <td>300</td> </tr> <tr> <td>Closing Stock</td> <td>200</td> </tr> <tr> <td>Net indirect tax</td> <td>400</td> </tr> <tr> <td>Intermediate consumption</td> <td>600</td> </tr> <tr> <td>Net factor income from abroad</td> <td>10</td> </tr> </tbody> </table>		Particulars	(Rs.) In Crore	Domestic Sales	3600	Opening Stock	800	Exports	1000	Depreciation	300	Closing Stock	200	Net indirect tax	400	Intermediate consumption	600	Net factor income from abroad	10
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Net factor income from abroad	10																		
a)	GNPMP = 2280																		
b)	GNPMP = 1280																		
c)	GNPMP = 920																		
d)	GNPMP = 2480																		

34	Calculate value of output from the following data:																		
<table border="1"> <thead> <tr> <th>Sr No.</th> <th>Particulars</th> <th>In lakhs</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Net value added at factor cost</td> <td>800</td> </tr> <tr> <td>2.</td> <td>Intermediate consumption</td> <td>500</td> </tr> <tr> <td>3.</td> <td>Excise duty</td> <td>400</td> </tr> <tr> <td>4.</td> <td>Subsidy</td> <td>60</td> </tr> <tr> <td>5.</td> <td>Depreciation</td> <td>80</td> </tr> </tbody> </table>		Sr No.	Particulars	In lakhs	1.	Net value added at factor cost	800	2.	Intermediate consumption	500	3.	Excise duty	400	4.	Subsidy	60	5.	Depreciation	80
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3.	Excise duty	400																	
4.	Subsidy	60																	
5.	Depreciation	80																	
a)	₹ 1720 lakhs																		
b)	₹ 720 lakhs																		
c)	₹ 880 lakhs																		
d)	₹ 1100 lakhs																		

35	Calculate Gross value at factor cost																											
<table border="1"> <thead> <tr> <th>Sr No.</th> <th>Particulars</th> <th>In lakhs</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>Units of output sold (Unit)</td> <td>1000</td> </tr> <tr> <td>2.</td> <td>Price per unit of output (₹)</td> <td>30</td> </tr> <tr> <td>3.</td> <td>Depreciation (₹)</td> <td>1000</td> </tr> <tr> <td>4.</td> <td>Intermediate cost (₹)</td> <td>12000</td> </tr> <tr> <td>5.</td> <td>Closing Stock (₹)</td> <td>3000</td> </tr> <tr> <td>6.</td> <td>Opening Stock (₹)</td> <td>2000</td> </tr> <tr> <td>7.</td> <td>Excise (₹)</td> <td>2500</td> </tr> <tr> <td>8.</td> <td>Sales Tax (₹)</td> <td>3500</td> </tr> </tbody> </table>		Sr No.	Particulars	In lakhs	1.	Units of output sold (Unit)	1000	2.	Price per unit of output (₹)	30	3.	Depreciation (₹)	1000	4.	Intermediate cost (₹)	12000	5.	Closing Stock (₹)	3000	6.	Opening Stock (₹)	2000	7.	Excise (₹)	2500	8.	Sales Tax (₹)	3500
Sr No.	Particulars	In lakhs																										
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7.	Excise (₹)	2500																										
8.	Sales Tax (₹)	3500																										
a)	₹ 17000																											
b)	₹ 16000																											
c)	₹ 13000																											
d)	₹ 12000																											

36	Calculate Net Value Added by Factor Cost from the following data																		
<table border="1"> <thead> <tr> <th>Particulars</th> <th>(Rs.) In Crore</th> </tr> </thead> <tbody> <tr> <td>Purchase of materials</td> <td>85</td> </tr> <tr> <td>Sales</td> <td>450</td> </tr> <tr> <td>Depreciation</td> <td>30</td> </tr> <tr> <td>Opening stock</td> <td>40</td> </tr> <tr> <td>Closing stock</td> <td>30</td> </tr> <tr> <td>Excise tax</td> <td>45</td> </tr> <tr> <td>Intermediate consumption</td> <td>200</td> </tr> <tr> <td>Subsidies</td> <td>15</td> </tr> </tbody> </table>		Particulars	(Rs.) In Crore	Purchase of materials	85	Sales	450	Depreciation	30	Opening stock	40	Closing stock	30	Excise tax	45	Intermediate consumption	200	Subsidies	15
Particulars	(Rs.) In Crore																		
Purchase of materials	85																		
Sales	450																		
Depreciation	30																		
Opening stock	40																		
Closing stock	30																		
Excise tax	45																		
Intermediate consumption	200																		
Subsidies	15																		
a)	350																		
b)	240																		
c)	300																		
d)	180																		

<b>37</b>	<b>Calculate the amount of depreciation from the following data</b>	
Particulars		(Rs.) In Crore
GDP at Market Price (GDPMP)		8,76,532
Net factor income from abroad		(-) 232
Aggregate amount of Indirect Taxes		564
Subsidies		30
National Income (NNPFC)		8,46,576
a) 29,190 b) 21,910 c) 29,310 d) 21,390		

<b>38</b>	<b>Calculate 'Sales' from the following data:</b>	
Particulars		Rs. In lakhs
Subsidies		200
Opening stock		100
Closing stock		600
Intermediate consumption		3,000
Consumption of fixed capital		700
Profit		750
Net value added at factor cost		2,000
a) 3000 b) 5000 c) 3700 d) 2000		

<b>39</b>	<b>Calculate Net Domestic Product at Factor Cost from the following data:</b>	
Particulars		Amount (in Rs crore)
Wages		7,142
Mixed Income		450
Rent		541
Salaries		8,912
Interest		1,013
Profit		714
a) 18,772 b) 16,746 c) 17,772 d) 15,746		

<b>40</b>	<b>From the following data, calculate NNP<sub>FC</sub></b>	
Particulars		Amount (In Crore)
Operating surplus		2,000
Mixed income of self-employed		1,100
Rent		550
Profit		800
Net indirect tax		450
Consumption of fixed capital		400
Net factor income from abroad		-50
Compensation of employees		1,000
a) 4,050 b) 4,500 c) 4,900 d) 4,950		

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41 Calculate GDPMP from the following data:

Particulars	(Rs.) In Crore
Net indirect tax	208
Consumption of fixed capital	42
Net factor income from abroad	-40
Rent	311
Profits	892
Interest	81
Loyalty	6
Wages and salary	489
Employer's contribution to Social Security Scheme	50

- a) 1,789
- b) 829
- c) 2,079
- d) 1,829

42 Calculate NNP<sub>fc</sub> from below data:

Particulars	In Cr
Net indirect tax	208
Consumption of fixed capital	42
Net factor income from abroad	-40
Rent	311
Profits	892
Interest	81
Loyalty	6
Wages and salary	489
Employer's contribution to Social Security Scheme	50

- a) 1,789
- b) 829
- c) 2,079
- d) 1,829

Following information, relating to a particular financial year, are given as under:

	In Crores
Sales	3,500
Intermediate consumption	400
Closing Stock	300
Opening Stock	200
Net indirect tax	600
Mixed income	200
Consumption of fixed capital	400
Compensation of employees	400

Answer the MCQs 43(i) to 43(iii) as per above table

43 (i) Calculate the GVA<sub>MP</sub>

- a) Rs. 3,200 Crore
- b) Rs. 2,800 Crore
- c) Rs. 2,200 Crore
- d) Rs. 1,600 Crore

43 (ii) Calculate the NDP<sub>MP</sub>

- a) Rs. 3,200 Crore
- b) Rs. 2,800 Crore
- c) Rs. 2,200 Crore
- d) Rs. 1,600 Crore

43 (iii) Calculate the Operating Surplus

- a) Rs. 3,200 Crore
- b) Rs. 2,800 Crore
- c) Rs. 2,200 Crore
- d) Rs. 1,600 Crore

**44 Calculate the Operating Surplus with the help of following data**

Particulars	(Rs.) In Crore
Sales	4000
Compensation of employees	800
Intermediate consumption	600
Rent	400
Interest	300
Net indirect tax	500
Consumption of Fixed Capital	200
Sales	4000

a) 1,500  
b) 2,700  
c) 3,200  
d) 3,400

**45 Compute National income**

Particulars	Amount
Consumption	750
Investment	250
Government Purchases	100
Exports	100
Imports	200

a) 1,000  
b) 1,200  
c) 1,100  
d) 1,300

**46 From the following data ans Ques 46 & 47. Calculate Gross Domestic Product at Factor Cost**

Particulars	Rs. in Crores
Gross national product at factor cost	61,500
Net exports	- 50
Compensation of employees	3000
Rent	800
Interest	900
Profit	1,300
Net indirect taxes	300
Net domestic capital formation	800
Gross domestic capital formation	900
Factor income to abroad	80

a) 1,300  
b) 6,100  
c) 6,400  
d) None

**47 Calculate Gross Domestic Product at Market price.**

a) 1,300  
b) 6,100  
c) 6,400  
d) None

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48 Calculate Net National Product at Market Price		
Particulars		Rs. in Crores
Compensation employees	in	800
Profit		300
Rent		200
Mixed income of self employed		600
Net Factor income from abroad		25
Interest		60
Import		40
Export		15
Consumption of fixed Capital		30
Net Indirect taxes		20
Net current transfer to abroad		10

a) Rs. 1,985 Cr  
b) Rs. 2,005 Cr  
c) Rs. 1,960 Cr  
d) Rs. 1,965 Cr

**Following data, relating to an economy of country, for current year are-**

Particulars	(In Cr ₹)
GDP MP	6550
Gross Investment (Including Business fixed investment, Residential construction investment, Public & Inventory investment)	1000
Government Purchases of goods and services	1500
Exports	400
Imports	350
GNP MP	6600
Indirect Taxes	200
Depreciation	200

Answer ques from 49(i) to 49(iii) from above data:

49 (i)	Find out the Private Final Consumption Expenditure
a) ₹ 4,000 crores	
b) ₹ 2,500 crores	
c) ₹ 3,000 crores	
d) None	

49 (ii)	Find out the Net Factor Income from Abroad
a) ₹ 25 crores	
b) ₹ 40 crores	
c) ₹ 50 crores	
d) None	

49 (iii)	Find out the NNP <sub>fc</sub> or National Income
a) ₹ 6,250 crores	
b) ₹ 6,200 crores	
c) ₹ 6,300 crores	
d) ₹ 6,550 crores	

50 Calculate NNP <sub>fc</sub> . By expenditure method with the help of following information	
Particulars	₹ in Cr
Private final consumption expenditure	10
Net Import	20
Public final consumption expenditure	05
Gross domestic fixed capital formation	350
Depreciation	30
Subsidy	100
Income paid to abroad	20
Change in stock	30
Net acquisition of valuables	10

a) 435  
b) 385  
c) 535  
d) 300

51 Given the following data, determine the National Income of a country using expenditure & income method respectively.

Particulars	Rs. in Lakhs
Private Final Consumption Expenditure	1,000
Government Final Consumption Expenditure	550
Compensation of Employees	600
Net Exports	-15
Net Indirect Taxes	60
Net Domestic Fixed Investment	385
Consumption of Fixed Capital Formation	65
Net Factor Income from Abroad	-10
Interest	310
Rent	200
Mixed Income of Self-Employed	350
Profit	400

- a) 1850, 1850
- b) 1910, 1860
- c) 1850, 1860
- d) 1910, 1850

52 Calculate Gross Domestic Product at market Prices (GDPMP) and derive national income from the following data (in Crores of Rs.)

Particulars	Amount
Inventory Investment	100
Exports	200
Indirect taxes	100
Net factor income from abroad	- 50
Personal consumption expenditure	3,500
Gross residential construction investment	300
Depreciation	50
Imports	100
Government purchases of goods and services	1000
Gross public investment	200
Gross business fixed investment	300

- a) 5,450
- b) 5,350
- c) 5,500
- d) 5,300

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53

Calculate National Income with the help of Expenditure & Income Method respectively.

Particulars	In Crore
Compensation of employees	1600
Profit	700
Net factor Income from above abroad	40
Indirect Taxes	200
Subsidies	80
Private Final Consumption Expenditure	1800
Net domestic capital formation	900
Depreciation	150
Interest	600
Rent	400
Mixed Income of self employed	800
Export	50
Import	30
Government Final consumption expenditure	1,100
Employees contribution to social security scheme	400

- a) 3,970 & 4,410
- b) 3,740 & 4,140
- c) 4,410 & 3,970
- d) 4,140 & 3,740

54

Calculate national income using income & expenditure method respectively from data given below:

Particulars	(Rs.) In Crore
Government purchase of goods and services	7,000
Indirect tax	9,000
Subsidies	1,800
Gross business fixed capital	13,000
Inventory Investment	3,000
Consumption of fixed capital	4,000
Personal consumption expenditure	51,000
Export of goods and services	4,800
Net factor income from aboard	(-) 300
Imports of goods and services	5,600
Mixed income of self employed	28,000
Rent, interest and profits	10,000
Compensation of employees	24,000

- a) 68,900 & 61,700
- b) 61,700 & 61,700
- c) 61,700 & 68,900
- d) None of the above

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55	Calculate the National Income with the help of Income and Expenditure Method respectively.	
Particulars	(Rs.) In Crore	
Net-factor income from abroad	50	
Compensation of employees	1000	
Net Indirect taxes	150	
Rent	500	
Profit	700	
Private final consumption expenditure	1,500	
Net domestic capital formation	600	
Depreciation	200	
Interest	500	
Mixed Income of self employed	900	
Export	90	
Import	60	
Government final Consumption expenditure	1,200	
Operating surplus	1,700	
Contribution to social security Scheme	250	

a) 3,230 Cr. & 3,650 Cr.  
b) 3,200 Cr. & 3,500 Cr.  
c) 3,500 Cr. & 3,200 Cr.  
d) 3,650 Cr. & 3,230 Cr.

The following data is available for a company:

Particulars	Amount (in ₹ Crore)
Gross Value Added (GVAMP)	2,750
Sales	3,450
Closing Stock	750
Interest	200
Opening Stock	900
Net indirect taxes	550
Rent	310
Mixed income	380
Compensation to employees	600
Consumption of fixed capital	320

Answer the following MCQs from 56(i) to 56(iii) based on above table

56 (i)	Compute Intermediate Consumption.	Amount of
a) ₹ 560 Crores b) ₹ 550 Crores c) ₹ 570 Crores d) None of the above		

56 (ii)	Compute Net Domestic Product at Factor Cost (NDPFC),
a) ₹2430 crores b) ₹2750 crores c) ₹1880 crores d) None of the above	

56 (iii)	Compute Profit of the company
a) ₹ 390 crores b) ₹ 310 crores c) ₹ 350 crores d) None of the above	

57 Calculate Gross Domestic Product at market price (GDPMP) and derive National Income from the following data (in Crores of Rupees)

Particulars	(Rs.) In Crore
Inventory investment	400
Exports	350
Indirect taxes	150
Net factor income from abroad	- 75
Personal consumption expenditure	7,500
Gross residential construction investment	700
Depreciation	100
Imports	200
Government purchases of goods and services	1,800
Gross public investment	400
Gross business fixed investment	375

- a) 11,250
- b) 11,325
- c) 11,000
- d) 11,100

58 Calculate GDP and National Income respectively from the following data:

Items	Rs in Crores
Depreciation	400
Exports	1,200
Imports	900
Net Factor income from rest of the world	600
Change in business inventories	200
Gross private domestic fixed Investment	400
Indirect Taxes	7,000
Subsidies	500
State government consumption and investment expenditure	700
Central government consumption and investment expenditure	800
Private Consumption Expenditure	5,000

- a) 7,400 & 1,500
- b) 1,500 & 7,400
- c) 6,500 & 1,500
- d) 1,500 & 6,500

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59 Compute GDP at market price and Mixed Income of Self-Employed respectively from the data given below

Particulars	In Crore
Compensation of Employees	810
Depreciation	26
Rent, Interest and Profit	453
NDP at factor cost	1,450
Subsidies	18
Net factor Income from Abroad	(-) 17
Indirect taxes.	57

- a) 1,476 & 190
- b) 1,515 & 187
- c) 1,610 & 190
- d) 1,610 & 187

60 Calculate Personal Income from the following data:

Particulars	In Crore
Undistributed profits of corporation	50
Net domestic product accruing to private sector	700
Corporation tax	65
Net factor income from abroad	10
Net current transfer from rest of the world	20
Net current transfer from the government	25
Interest on national debt	40

- a) 650
- b) 680
- c) 610
- d) None of the above

61 From the following data, estimate National Income and Personal Income respectively.

Items	Rs. in Crores
Net national product at market price	1,891
Income from property and entrepreneurship accruing to government administrative departments	45
Indirect taxes	175
Subsidies	30
Saving of non-departmental enterprises	10
Interest on National debt	15
Current transfers from government	35
Current transfers from rest of the world	20
Saving of private corporate sector	25
Corporate profit tax	25

- a) 1,746 & 1,711
- b) 1,711 & 1,746
- c) 1,700 & 1,750
- d) None of the above

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62 On basis of following information, calculate NNP at market price and Disposable personal income respectively.

Items	Rs. in Crores
NDP at factor cost	14,900
Income from domestic product accruing to government	150
Interest on National debt	170
Transfer payment by government	60
Net private donation from abroad	30
Net factor income from abroad	80
Indirect taxes	335
Direct taxes	100
Subsidies	262
Taxes on corporate profits	222
Undistributed profits of corporations	105

- a) 15,053 & 14,663
- b) 14,663 & 15,053
- c) 14,763 & 14,980
- d) 14,980 & 14,763

Notes-

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63 From the following data calculate National Income & Personal disposable income respectively.

Particulars	In Crore
Personal Income	8,000
Mixed Income of self employed	2,000
Compensation of employees	1,600
Net-factor Income from abroad	-200
Rent	1,500
Personal Income Taxes	800
Profit	1,400
Consumption of fixed capital	600
Direct taxes paid by households	900
Non-Tax Payments	1,000
Net Indirect taxes	700
Net Exports Taxes	-180
Interest	1,100

- a) 6200 & 7400
- b) 7400 & 6200
- c) 7000 & 7200
- d) 7200 & 7000

Notes-

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64 Calculate Private Income from the following data:

Particulars	In Crore
National Income	5,000
Income from domestic product accruing to private sector	400
Saving of private corporate sector	250
Current Transfer from government administrative departments	600
Current Transfer from of the world	200
Corporative Tax	80
Direct personal tax	160
Net factor Income from abroad	(70)

- a) 5470
- b) 1270
- c) 1130
- d) 5630

Notes-

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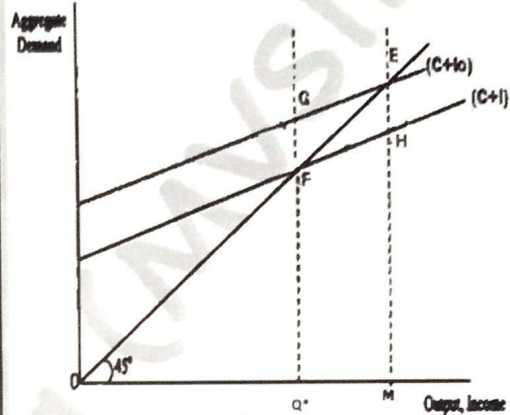
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New MCQs by MVSIR – Set 2 - Unit 2

Assuming  $OQ^*$  is the full employment level of output, what is the deflationary/Inflationary gap?

65



- a) deflationary gap is FG
- b) inflationary gap is FG
- c) inflationary gap is EH
- d) deflationary gap is EH

66

What would happen if aggregate expenditures were to exceed the country's economy's production capacity?

- a) "demand-pull" inflation or higher price level.
- b) "Cost-push" inflation or lower price level
- c) Stagflation or higher price level.
- d) None of the above

67

Find out the MPC, when in an economy total income increases by Rs. 7500 crores due to increase in investment by Rs. 2500 crore?

- a) MPC = 0.88
- b) MPC = 0.77
- c) MPC = 0.66
- d) MPC = 0.55



68 Calculate Multiplier and Marginal Propensity to Consume (MPC) with the help of following information:

Particulars	Rs.	Rs.
Investment	1600	2000
National Income	5000	6600

a) Multiplier = 4, MPC = 0.75  
 b) Multiplier = 2, MPC = 1.50  
 c) Multiplier = 5, MPC = 0.60  
 d) None of the above

69 How is aggregate consumption function affected, if: An impending war is expected to result in shortage of goods and an adoption of a rationing system

a) Supply will be less, demand will be high  
 b) Increase in prices, reducing the disposable income  
 c) Reduction in aggregate consumption function downwards.  
 d) All of the above.

70 How is aggregate consumption function affected, if: Increased cost for steel, oil etc. are expected to result in higher prices for consumer goods

a) Reduces the supply  
 b) increased demand and prices will go up  
 c) aggregate consumption function to decline  
 d) All of the above

71 How is aggregate consumption function affected, if: The leadership assures that economic policy is bringing the recession to an end.

a) assurance will increase the aggregate consumption function  
 b) mere assurance will not increase the aggregate consumption function till the effect is realised by both the producer and consumer  
 c) Both b and c  
 d) None of the above

72 What are the factors that causes leakages in the multiplier?

a) progressive rates of taxation  
 b) high liquidity preference and idle saving  
 c) increased demand for consumer goods  
 d) All of the above

73 If increased income goes out of the cycle of consumption expenditure, there is a leakage from income stream which-

a) reduces the multiplier  
 b) increases the multiplier  
 c) Does not affect the multiplier  
 d) Any of the above.

74 Greater the value of imports \_\_\_\_

a) Greater will be propensity to import, lower will be autonomous expenditure multiplier  
 b) Lower will be propensity to import, higher will be autonomous expenditure multiplier  
 c) Both a and b  
 d) None of the above

Assume an economy's consumption function is specified by the equation  $C = 500 + 0.80Y$ . Using the above data, ans questions from 75 to 78

75 What will be the consumption when disposable income (Y) is Rs. 4,000, Rs. 5,000, and Rs. 6,000 respectively?

- a) Rs. 3,500, Rs. 4,600, Rs. 5,500
- b) Rs. 3,700, Rs. 4,500, Rs. 5,300
- c) Rs. 3,800, Rs. 4,200, Rs. 5,100
- d) Rs. 3,200, Rs. 4,600, Rs. 5,200

76 Find saving when disposable income is Rs. 4,000, Rs. 5,000, and Rs. 6,000.

- a) Rs. 300, Rs. 600, Rs. 800
- b) Rs. 400, Rs. 200, Rs. 500
- c) Rs. 300, Rs. 500, Rs. 700
- d) Rs. 600, Rs. 200, Rs. 500

77 What amount of consumption for consumption function C is autonomous?

- a) Rs. 500
- b) Rs. 600
- c) Rs. 700
- d) Rs. 800

78 What amount is induced when disposable income is Rs. 4,000, Rs. 5,000, Rs. 6,000 respectively-

- a) Rs. 3800, Rs. 4100, Rs. 4500
- b) Rs. 3500, Rs. 4500, Rs. 4700
- c) Rs. 3200, Rs. 4400, Rs. 4600
- d) Rs. 3700, Rs. 4000, Rs. 4800

79 Suppose MPC is 0.8 and it is planned to increase National Income by Rs. 3000 Crore, then how much increase in investment is required to fulfill this target?

- a) 500 Crore.
- b) 600 Crore.
- c) 700 Crore.
- d) 800 Crore.

80 In an economy investment expenditure is increased by Rs. 400 Crores and marginal propensity to consume is 0.8. Calculate the total increase in income and saving.

- a) Rs 3,000 Crores & Rs 500 Crores
- b) Rs 2,000 Crores & Rs 400 Crores
- c) Rs 1,000 Crores & Rs 200 Crores
- d) Rs 500 Crores & Rs 100 Crores

81 In an economy, investment is increased by Rs 600 Crores. If the marginal propensity to consume is 0.6, calculate the total increase in income and consumption expenditure.

- a) Rs. 1700 Crores. & Rs. 800 Crores.
- b) Rs. 1600 Crores. & Rs. 900 Crores.
- c) Rs. 1500 Crores. & Rs. 900 Crores.
- d) Rs. 1400 Crores. & Rs. 800 Crores.

82 An increase in investment by 400 Crores leads to increase in national income by 1,600 Crores. Calculate marginal propensity to consume.

- a) 0.75
- b) 0.25
- c) 0.65
- d) 0.35

83 Suppose consumption is given by:  $C = 10 + 0.6Y$

Now if, Investment increases by Rs. 100 Crores then what will be its effect on income (Y) ?

- a) increase in investment by Rs 100 Crores will cause equilibrium income to rise by Rs. 150 Crores.
- b) increase in investment by Rs 100 Crores will cause equilibrium income to rise by Rs. 250 Crores.
- c) increase in investment by Rs 100 Crores will cause equilibrium income to rise by Rs. 550 Crores.
- d) None of the above

84	<p>When investment in an economy increases from Rs. 10,000 crores to Rs. 14,000 crores and as a result of this national income rises from Rs. 80,000 crores to Rs. 92,000 crores, compute investment multiplier.</p>
<p>a) 3 b) 4 c) 5 d) 6</p>	
85	<p>Calculate marginal propensity to consume and marginal propensity to save from the following data about an economy which is in equilibrium: National income = 2500, Autonomous consumption expenditure = 300, Investment expenditure = 100</p>
<p>a) MPC = 0.84, MPS = 0.16 b) MPC = 0.16, MPS = 0.84 c) MPC = 0.81, MPS = 0.19 d) MPC = 0.19, MPS = 0.81</p>	
86	<p>Suppose the consumption of an economy is given by <math>C = 20 + 0.6Y</math> and investment <math>I = 10 + 0.2Y</math>. What will be the equilibrium level of National Income?</p>
<p>a) 140 b) 150 c) 170 d) 170</p>	
87	<p>Suppose the consumption function <math>C = 7 + 0.5Y</math>, Investment is Rs. 100, Find out equilibrium level of Income, consumption and saving?</p>
<p>a) <math>Y = 216, C = 115, S = 110</math> b) <math>Y = 215, C = 115, S = 110</math> c) <math>Y = 214, C = 114, S = 100</math> d) <math>Y = 213, C = 114, S = 100</math></p>	

88	<p>If the consumption function is <math>C = 250 + 0.80Y</math> and <math>I = 300</math>. Find out equilibrium level of <math>Y, C</math> and <math>S</math>?</p>
<p>a) <math>Y = 2650, C = 2550, S = 500</math> b) <math>Y = 2950, C = 2250, S = 600</math> c) <math>Y = 2850, C = 2350, S = 200</math> d) <math>Y = 2750, C = 2450, S = 300</math></p>	
89	<p>If saving function <math>S = -10 + 0.2Y</math> and autonomous investment <math>I = 50</math> Crores. Find out the equilibrium level of income and consumption.</p>
<p>a) <math>Y = 325</math> Crores ; <math>C = 270</math> Crores b) <math>Y = 300</math> Crores ; <math>C = 250</math> Crores c) <math>Y = 225</math> Crores ; <math>C = 230</math> Crores d) <math>Y = 125</math> Crores ; <math>C = 220</math> Crores</p>	
90	<p>Given the empirical consumption function <math>C = 100 + 0.75Y</math> and <math>I = 1000</math>, calculate equilibrium level of national income</p>
<p>a) 3400 b) 3500 c) 3600 d) 3700</p>	
<p>Suppose we have the following data about a simple economy: <math>C = 10 + 0.75Y_d, I = 50, G = T = 20</math> where <math>C</math> is consumption, <math>I</math> is investment, <math>Y_d</math> is disposable income, <math>G</math> is government expenditure and <math>T</math> is tax. Answer the ques 91 to 92 from above data</p>	
91	<p>Find out the equilibrium level of national income.</p>
<p>a) 260 b) 250 c) 240 d) 270</p>	

92	What is the size of the multiplier?
<p>a) 4 b) 3 c) 2 d) 1</p>	
93	<p>Suppose the structural model of an economy is given –  <math>C = 100 + 0.75 Y_d</math>; <math>I = 200</math>, <math>G = T = 100</math>; <math>TR = 50</math>,                      find the equilibrium level of income?</p>
<p>a) 1650 b) 1550 c) 1450 d) 1750</p>	
94	<p>For a closed economy, the following data is given –                      Consumption <math>C = 75 + 0.5 (Y - T)</math>;                      Investment <math>I = 80</math>;                      Total tax <math>T = 25 + 0.1Y</math>;                      Government expenditure <math>G = 100</math>.                      a) Find out equilibrium income?                      b) What is the value of multiplier?</p>
<p>a) 441.91 &amp; 2.32 b) 540.91 &amp; 1.95 c) 541.91 &amp; 1.55 d) 440.91 &amp; 1.82</p>	
95	<p>Suppose <math>C = 100 + 0.80 (Y - T + TR)</math>; <math>I = 200</math>; <math>T = 25 + 0.1Y</math>; <math>TR = 50</math>; <math>G = 100</math>                      Find out equilibrium level of Income?</p>
<p>a) 1600 b) 1200 c) 1400 d) 1500</p>	
96	<p>"Net Exports" can be negative or positive. Which of the below statement is correct?</p>
<p>a) Net exports are the difference between exports and imports of a country during the accounting year. It can be positive or negative.                      b) If a country's exports are larger than its imports, then a country is said to have a trade surplus else it will be trade deficit.                      c) Export stimulates economic growth by creating jobs which could potentially reduce poverty and augmenting factor incomes and in so doing raising the standard of livelihood and overall demand for goods and services                      d) All of the above</p>	
97	<p>The consumption function is <math>C = 40 + 0.8Y_d</math>, <math>T = 0.1Y</math>, <math>I = 60</math> Crores  <math>G = 40</math> Crores,  <math>X = 58</math> and <math>M = 0.05 Y</math>. Find out equilibrium level of income &amp; Net Export respectively</p>
<p>a) 700 crores, 45 crores b) 600 crores, 28 crores c) 500 crores, 32 crores d) 400 crores, 48 crores</p>	
98	<p>An economy is characterised by the following equation                      Consumption <math>C = 60 + 0.9Y_d</math>                      Investment <math>I = 10</math>                      Government expenditure <math>G = 10</math>                      Tax <math>T = 0</math>                      Exports <math>X = 20</math>                      Imports <math>M = 10 + 0.05 Y</math>                       Calculate trade balance and foreign trade multiplier respectively.</p>
<p>a) -20 &amp; 6.66 b) -30 &amp; 5.23 c) -40 &amp; 4.45 d) -50 &amp; 3.55</p>	

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The equation of 'consumption function' of an economy is as follows:  
 $C = \text{Rs } 450 + 0.70y$ . Answer the ques 99 to 101 from above data.

99 Compute Consumption when disposable income (y) is Rs 3,500 and Rs 5,800 respectively.

- a) 2500 & 4710
- b) 2900 & 4510
- c) 2800 & 4610
- d) 2700 & 4510

100 Compute the Saving when disposable income (y) is Rs 3,500 and Rs 5,500 respectively.

- a) 800 & 1100
- b) 700 & 1200
- c) 600 & 1200
- d) 500 & 1100

101 Amount induced when disposable income is Rs 3,200.

- a) 510
- b) 520
- c) 530
- d) 540

102 Given Consumption function  $C = 300 + 0.75Y$ ;  
Investment = Rs. 800; Net Imports = Rs. 100  
Calculate equilibrium level of output.

- a) Rs. 5000
- b) Rs. 4000
- c) Rs. 3000
- d) Rs. 2000

103 Suppose Consumption function of the economy is given by:  $C = 40 + 0.8Y$  and Investment Function is given by:  $I = 30 + 0.4Y$ . What will be equilibrium level of national Income?

- a) 140
- b) 150
- c) 160
- d) 170

Suppose the consumption function is  $C = 50 + 0.8Y_d$ ,  $I = 180$  crores,  $G = 190$  crores,  $T = 0.20Y$   
Answer the ques 104 to 106 from above data.

104 Find the equilibrium level of income.

- a) 1666.66 Crores
- b) 1116.66 Crores
- c) 1166.66 Crores
- d) 1106.66 Crores

105 Find the revenue from taxes at equilibrium. Is government budget balanced?

- a) 233.332, budget is unbalanced
- b) 233.332, budget is balanced
- c) 180, budget is unbalanced
- d) 180, budget is balanced

106 Find the equilibrium level of income when investment increases by 120 crores.

- a) 1419.99 Crore
- b) 1999.99 Crore
- c) 1449.99 Crore
- d) 1499.99 Crore

107 For the linear consumption function is  $C = 700 + 0.8Y$ ;  
 $I$  is Rs. 1200 and  
Net exports  $X-M = 100$ .  
Find equilibrium output?

- a) 10,000
- b) 20,000
- c) 30,000
- d) 40,000

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**Answer Key – Chapter 6 – New MCQS - Set 2 (Unit – 1)**

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

**Answer Key – Chapter 6 – New MCQS - Set 2 (Unit – 2)**

65	B	75	B	85	A	95	D	105	C
66	A	76	C	86	B	96	D	106	D
67	C	77	A	87	C	97	B	107	A
68	A	78	D	88	D	98	A		
69	D	79	B	89	B	99	B		
70	D	80	B	90	A	100	C		
71	D	81	C	91	A	101	A		
72	D	82	A	92	A	102	B		
73	A	83	B	93	C	103	A		
74	A	84	A	94	D	104	C		

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CA Foundation – New Syllabus  
Business Economics

Chapter 6  
Determination of National  
Income

ICAI Extra MCQs

MCQ Compiler by MVSIR

**ICAI Extra MCQs**

**UNIT 1**

<b>1</b>	<b>Demand for final consumption arises in:</b>
<p>a) Household sector only.                  b) Government sector only.                  c) Both household and government sector.                  d) Neither household nor government sector.</p>	
<b>2</b>	<b>What is the value of investment Multiplier when saving function is represented as <math>S = -60 + 0.2y</math>?</b>
<p>a) 2                  b) 5                  c) 4                  d) 0.2</p>	
<b>3</b>	<b>Which of the following is a FALSE statement?</b>
<p>a) The very long run focuses on the growth of productive capacity                  b) In the very long run, the productive capacity is assumed to be given                  c) In the very short run, shifts in aggregate demand determine how much output is produced                  d) Fluctuations in the rates of inflation and unemployment are important long-run issues</p>	
<b>4</b>	<b>Transfer payments are:</b>
<p>a) Excluded when calculating GDP because they only reflect inflation                  b) Excluded when calculating GDP because they do not relate to current year production                  c) Included when calculating GDP because they are a category of investment spending                  d) Included when calculating GDP because they increase the spending of recipients</p>	

<b>5</b>	<b>An increase in marginal propensity to consume will</b>
<p>a) Lead to the consumption function becoming steeper                  b) Shift the consumption function upwards                  c) Shift the consumption function downwards                  d) Shift the savings function upwards</p>	
<b>6</b>	<b>Among the following types of taxes, find the one which is indirect?</b>
<p>a) Gift tax.                  b) Corporate income tax.                  c) VAT.                  d) Wealth tax.</p>	
<b>7</b>	<b>GDP includes:</b>
<p>a) Neither intermediate nor final goods                  b) Both intermediate and final goods                  c) Monetary value of all economic resources used in producing a year's output.                  d) Final, but not intermediate, goods.</p>	
<b>8</b>	<b>In the simple Keynesian model investment is:</b>
<p>a) Fixed                  b) A function of the level of income                  c) Either fixed or a function of the level of income.                  d) None of the above.</p>	
<b>9</b>	<b>If depreciation exceeds gross investment:</b>
<p>a) The economy's stock of capital may be either growing or shrinking                  b) The economy's stock of capital is shrinking.                  c) The economy's stock of capital is growing.                  d) Net investment is zero.</p>	

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10 Suppose the total market value of all final goods and services produced in a particular country in 2004 is Rs. 500 billion and the total market value of final goods and services sold is Rs. 450 billion. We can conclude that:

a) GDP in 2004 is 450 billion  
b) NDP in 2004 is 450 billion  
c) GDP in 2004 is 500 billion  
d) Inventories in 2004 fell by 50 billion

11 In the simple Keynesian model consumption is a function of,

a) Rate of interest.  
b) Level of income.  
c) Price level.  
d) None of the above.

12 Macroeconomics does NOT focus on:

a) A policies that effect consumption and saving  
b) Policies that affect the performance of healthcare provider  
c) The determination of changes in wages and prices  
d) The determination of interest rates.

13 A nation's stock of capital goods will decline when:

a) Gross investment exceeds net investment  
b) Net investment is positive, but less than gross investment  
c) Depreciation exceeds gross investment  
d) Gross investment exceeds depreciation.

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14 By summing the market value of all goods and services produced in the economy we would:

a) be determining the market value of all resources used in the production process.  
b) obtain a sum substantially larger than the GDP.  
c) be determining value added for the economy.  
d) Be measuring GDP.

15 Government intervention into economic activity will NOT lead to a change in the price level:

a) In the very short-run model  
b) In the medium-run model  
c) In the very long-run model  
d) A in the classical model

16 Personal income is most likely to exceed national income:

a) Transfer payments exceeded the sum of Social security contributions, corporate income taxes, and indirect business taxes.  
b) the sum of Social security contributions, corporate income taxes, and undistributed corporate profits exceeded transfer payments.  
c) Consumption of fixed capital and indirect business taxes exceeded personal taxes.  
d) Transfer payments exceeded the sum of Social security contributions, corporate income taxes, & undistributed corporate profits

17 An increase in consumption at any given level of income will lead to

a) Higher aggregate demand.  
b) An increase in exports  
c) A fall in taxation revenue.  
d) A decrease in import spending

18	In the simple Keynesian model, stability of equilibrium exists, if	<ul style="list-style-type: none"> <li>a) APC is less than one</li> <li>b) APS is less than one</li> <li>c) MPC is less than one</li> <li>d) None of the above</li> </ul>	23	If the consumption function is $C = 100 + 0.80 Y$ , and $I = 300$ . Find out equilibrium level of Income (Y) & Savings?	<ul style="list-style-type: none"> <li>a) <math>Y = 3000, S = 500</math></li> <li>b) <math>Y = 4000, S = 600</math></li> <li>c) <math>Y = 2000, S = 300</math></li> <li>d) <math>Y = 2500, S = 200</math></li> </ul>
19	Leakages - injection model is known as:	<ul style="list-style-type: none"> <li>a) Incremental income model</li> <li>b) Incremental investment model</li> <li>c) Saving &amp; expenditure model</li> <li>d) Saving &amp; investment model</li> </ul>	24	Which of the following is NOT a central issue in macroeconomics?	<ul style="list-style-type: none"> <li>a) How should the central bank of a country fight inflation?</li> <li>b) What is responsible for high and persistent unemployment?</li> <li>c) How do tax changes influence consumers buying choices?</li> <li>d) What factors determine economic growth?</li> </ul>
20	Which of the following will cause a leakage in the National income of an economy?	<ul style="list-style-type: none"> <li>a) Decrease in Expenditure</li> <li>b) Decrease in Taxation</li> <li>c) Increase in imports</li> <li>d) Both a and c</li> </ul>	25	Which of the following is an intermediate good?	<ul style="list-style-type: none"> <li>a) The purchase of gasoline for a ski trip to Colorado</li> <li>b) The purchase of a pizza by a college student.</li> <li>c) The purchase of baseball uniforms by a professional baseball team</li> <li>d) The purchase of jogging shoes by a professor</li> </ul>
21	Identify the items which is not a factor payment:	<ul style="list-style-type: none"> <li>a) Free uniform to defense personnel.</li> <li>b) Salaries to the members of parliament.</li> <li>c) Imputed rent of an owner occupied building.</li> <li>d) Scholarships given to the scheduled caste students.</li> </ul>	26	In explaining level of unemployment, Keynes emphasised	<ul style="list-style-type: none"> <li>a) Changes in technology.</li> <li>b) Aggregate demand.</li> <li>c) Inflationary expectations.</li> <li>d) Lending by financial institutions.</li> </ul>
22	In a Keynesian model of income determination, when intended spending is greater than actual output, the adjustment to a new macro-economic equilibrium is based on changes in:	<ul style="list-style-type: none"> <li>a) Autonomous consumption</li> <li>b) Unplanned inventories</li> <li>c) Government spending</li> <li>d) Net exports</li> </ul>	27	What could be the cause of the increase in aggregate demand within an economy?	<ul style="list-style-type: none"> <li>a) Increase in imports</li> <li>b) Decrease in Govt. Expenditure</li> <li>c) Rise in investment Expenditure</li> <li>d) Decrease in exports</li> </ul>



**28** Which of the economists below most likely advocated activist government policies?

a) Milton Friedman  
b) John Maynard Keynes  
c) Robert Lucas  
d) Adam Smith

**29** When the economy is experiencing Deflationary Gap, which of the following will not occur?

a) Unplanned stockpiling of inventory  
b) Decrease in output & income  
c) Rise in Aggregate Demand  
d) Fall in Aggregate Demand

**30** Which of the following is an economic activity?

a) Listening to music on the radio  
b) Teaching one own son at home  
c) Medical facilities rendered by a charitable dispensary  
d) A housewife doing household duties

**31** In the very long-run AD-AS model, if the AD-curve shifts to the left, then:

a) Prices and output will both decrease  
b) Prices and output will both increase  
c) Prices will decrease but output will remain the same  
d) Output will decrease but prices will remain the same

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**32** Personal income is most likely to exceed national income:

a) When gross and net investment are equal.  
b) During a period of recession or depression  
c) When gross investment exceeds net investment  
d) During a period of extended inflation.

**33** In the very long-run AD-AS model:

a) Only fiscal policy can affect both output and prices  
b) Only monetary policy can affect both output and prices  
c) Monetary policy can affect output but not prices  
d) Active stabilization policy is ineffective in changing output

**34** EVA Digital assistance Robot of HDFC Bank is

a) An international good  
b) A consumer good  
c) A capital good  
d) None of these

**35** Setup Corporation buys 1,00,000 of sand, rock and cement to produce ready-mix concrete. It sells 10,000 cubic yards of concrete at \$30 a cubic yard. The value added by Setup Corporation is:

a) 3,00,000  
b) 1,00,000  
c) 2,00,000  
d) zero

**36** A large underground economy results in an \_\_\_\_\_

a) Understated GDP  
b) Understated GDP price index  
c) Overstated GDP  
d) Overstated GDP price index

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<b>37</b>	<b>If personal income exceeds national income in a particular year, we can conclude that:</b>
<p>a) A transfer payments exceeds the sum of social security contributions, corporate income taxes, and indirect business taxes.</p> <p>b) The sum of social security contributions, corporate income taxes and undistributed corporate profits exceeded transfer payments.</p> <p>c) Consumption of fixed capital and indirect business taxes exceeded personal taxes.</p> <p>d) A transfer payments exceeds the sum of social security contributions, corporate income taxes, and undistributed corporate profits.</p>	

<b>38</b>	<b>Average propensity to consume is measured by _____</b>
<p>a) <math>C / Y</math></p> <p>b) <math>C = Y</math></p> <p>c) <math>Y / C</math></p> <p>d) <math>C + Y</math></p>	

<b>39</b>	<b>NDP is _____</b>
<p>a) NI plus net foreign factor income earned in the U.S. plus indirect business taxes</p> <p>b) NI plus corporate income taxes</p> <p>c) GDP deflated for increases in the price level</p> <p>d) GDP minus indirect business taxes</p>	

<b>40</b>	<b>Which of the following is the final good or service?</b>
<p>a) Diesel fuel bought for a delivery truck</p> <p>b) A fertilizer purchased by a farm supplier</p> <p>c) A haircut</p> <p>d) Chevrolet windows purchased by a general motors assembly plant</p>	

<b>41</b>	<b>Gross investment refers to</b>
<p>a) A private investment minus public investment</p> <p>b) Net investment plus replacement investment</p> <p>c) Net investment after it has been "inflated" for changes in the price level</p> <p>d) Net investment plus net exports</p>	

<b>42</b>	<b>GDP differs from NDP in that:</b>
<p>a) GDP is based on gross exports, while NDP is based on net exports</p> <p>b) GDP includes, but NDP excludes, indirect business taxes</p> <p>c) Net investment is used in calculating GDP and gross investment is used in calculating NDP</p> <p>d) Gross investment is used in calculating GDP and net investment is used in calculating NDP</p>	

<b>43</b>	<b>Which of the following is NOT dealt with in microeconomics?</b>
<p>a) The effect of agricultural subsidies on the price of milk</p> <p>b) Differences between the market for skilled labor versus the market for unskilled labor</p> <p>c) Issues related to the structure and performance of the health care sector</p> <p>d) Policies that affect the level of aggregate consumption</p>	

44 An economy is enlarging its stock of capital goods:

- a) When Net investments exceeds Gross investment
- b) When Gross investments exceeds replacement investment
- c) When Gross investment is positive
- d) When replacement investments Gross exceeds investment

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Answer Key - Chapter 6 - ICAI Extra MCQs

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

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CA Foundation – New Syllabus  
Business Economics

Chapter 6  
**Determination of National  
Income**

**ICAI MCQs**

MCQ Compiler by MVSIR

**UNIT 1**

**ICAI MCQS**

ICAI SM	
<b>1</b>	<b>The concept of 'resident unit' involved in the definition of GDP denotes</b>
<p>a) A business enterprise which belongs to a citizen of India with production units solely situated in India</p> <p>b) The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status</p> <p>c) A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India</p> <p>d) Households and business enterprises composed of citizens of India alone living in India during the accounting year</p>	

ICAI SM	
<b>2</b>	<p><b>Read the following statements and answer the following question.</b></p> <p><b>I. Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production,</b></p> <p><b>II. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.</b></p>
<p>a) Only I is true</p> <p>b) Both I and II are true</p> <p>c) Only II is true</p> <p>d) Neither I nor II is true</p>	

ICAI SM	
<b>3</b>	<b>Gross Domestic Product (GDP) of any nation</b>
<p>a) excludes capital consumption and intermediate consumption</p> <p>b) Is inclusive of capital consumption or depreciation</p> <p>c) is inclusive of indirect taxes but excludes subsidies</p> <p>d) None of the above</p>	

ICAI SM	
<b>4</b>	<p><b>Read the following statements</b></p> <p><b>I. 'Value added' refers to the difference between value of output and purchase of intermediate goods.</b></p> <p><b>II. 'Value added' represents the contribution of labour and capital to the production process.</b></p>
<p>a) Statements I and II are incorrect</p> <p>b) Statements I and II are correct</p> <p>c) Statement I is correct and II is incorrect</p> <p>d) Statement II is correct and I is incorrect</p>	

ICAI SM	
<b>5</b>	<b>Non-economic activities are</b>
<p>a) those activities whose value is excluded from national income calculation as it will involve double counting</p> <p>b) those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value</p> <p>c) those which do not involve production of goods and services as they are meant to provide hobbies and leisure time activities</p> <p>d) those which result in production for self consumption and therefore not included in national income calculation</p>	

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

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

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

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

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

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

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

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



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

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

**Answer Key - Chapter 6 - ICAI MCQs (Unit - 1)**

1	B	4	B	7	D	10	B	13	D
2	B	5	B	8	A	11	A	14	C
3	B	6	D	9	A	12	D	15	A

CA Mohnish

**UNIT 2**

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

3 According to Keynes, consumption expenditure is determined by

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM	
9	In the Keynesian cross diagram, the point at which the aggregate demand function crosses the 45-degree line indicates the
a) level of full employment income. b) less than full employment level of income. c) equilibrium level of income which may or may not be full employment level of income d) autonomous level of income which may not be full employment level of income	

ICAI SM	
10	In a closed economy, aggregate demand is the sum of
a) consumer expenditure, demand for exports and government spending. b) consumer expenditure, planned investment spending and government spending. c) consumer expenditure, actual investment spending, government spending and net exports. d) consumer expenditure, planned investment spending, government spending, and net exports.	

ICAI SM	
11	Under equation $C = a + by$ , $b = 0.8$ , what is the value of 2 sector expenditure multiplier?
a) 4 b) 2 c) 5 d) 1	

**Answer Key – Chapter 6 - ICAI MCQs (Unit – 2)**

1	A	3	C	5	B	7	C	9	C
2	B	4	A	6	A	8	C	10	B
								11	C

**MTP MCQs**

MTP Apr 24

**1** If a country's Gross Domestic Product (GDP) is greater than its Gross National Product (GNP), it implies that the country:

- a) Is a net exporter.
- b) Is a net importer.
- c) Has a trade surplus
- d) Has a trade deficit

MTP Apr 24

**2** In the very long-run AD-AS model, if the AD-curve shifts to the left, then:

- a) prices and output will both decrease
- b) prices and output will both increase.
- c) prices will decrease but output will remain the same
- d) output will decrease but prices will remain the same

MTP Apr 24

**3** Countries with higher saving rates may have higher equilibrium growth rates Since:

- a) People who save more also are more industrious
- b) Higher income allows for more savings
- c) A higher saving rate allows for more investment in human capital which ultimately enhances economic growth
- d) Having more capital equipment is more important than having better capital equipment

MTP Apr 24

**4** Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?

- a) consumption and government purchases went up since you bought a used car and government bonds
- b) consumption and investment went up since you bought a used car and government bonds
- c) investment and government purchases went up since you built a new house and bought government bonds
- d) investment went up since you built a new house

MTP Apr 24

**5** Inflation occurs whenever:

- a) aggregate demand rises.
- b) the price of any given commodity rises.
- c) the average price of most goods and services rises.
- d) the tax rate is lower than the government spending rate.

MTP Apr 24

**6** The expenditure multiplier is used to calculate the change in:

- a) pending caused by a change in income
- b) equilibrium income caused by a change in autonomous spending
- c) intended spending caused by a change in consumption
- d) disposable income caused by a change in saving

MTP Apr 24	
7	What is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach?
a) $GDP = Consumption + Investment + Government Spending$ b) $GDP = Consumption + Investment + Government Spending + Net Exports$ c) $GDP = Consumption + Investment$ d) $GDP = Consumption + Net Exports$	

MTP Apr 24	
8	Which component of National Income represents the income earned individuals and businesses before taxes and other deductions?
a) Personal Income b) Disposable Income c) Gross National Product (GNP) d) Gross Domestic Product (GDP)	

MTP Apr 24	
9	The concept of the "multiplier effect" in Keynesian economics refers to:
a) the impact of interest rates on investment b) The magnification of an initial change in spending through the economy c) The impact of taxes on consumer spending d) The role of exports in economic growth	

MTP Apr 24	
10	Which of the following is a factor income?
a) Profits b) Transfer payments c) Subsidies d) Indirect taxes	

MTP Apr 24	
11	The industrial sector depends on the agricultural sector because:
a) the agricultural sector provides food and other products for the consumption purposes of industrial sector b) the agricultural sector provides raw materials for the development of agro-based industries of the economy c) the agricultural sector provides market for the industrial products d) all of the above	

MTP Apr 24	
12	The concept of "animal spirits" in Keynesian theory refers to:
a) The unpredictable behavior of financial markets b) Psychological factors influencing economic decisions c) Government regulations affecting business confidence d) The impact of interest rates on investment	

**Answer Key – Chapter 6 - MTP MCQs**

1	D	4	D	7	B	10	A
2	C	5	C	8	A	11	D
3	C	6	B	9	B	12	B

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Chapter 7  
**PUBLIC FINANCE**

**New MCQs by MVSIR**

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**New MCQs by MVSIR**

**UNIT 1**

<b>1</b>	<b>Macroeconomic goals for any nation are-</b>
a) economic growth b) high levels of employment c) stable price levels d) All of the above	
<b>2</b>	<b>_____ study of the economy as a whole</b>
a) Micro Economics b) Macro Economics c) Both a & b d) None of the above	
<b>3</b>	<b>Allocation Function is a _____ function</b>
a) Macro Economic b) Micro Economic c) Both a and b d) None of the above	
<b>4</b>	<b>_____ was a bold advocate of free markets and minimal governmental activity</b>
a) Alfred Marshall b) J.M. Keynes c) Milton Friedman d) Adam Smith	
<b>5</b>	<b>As per Adam Smith, the role of government was-</b>
a) national defense b) establishing a system of justice & internal law & order c) establishment and maintenance of highly beneficial public institutions d) All of the above	

<b>6</b>	<b>Who introduced the three-branch taxonomy of the role of government in a market economy in his book 'The Theory of Public Finance' ?</b>
a) Keynes b) Buchanan c) Richard Musgrave d) Garrett Hardin	
<b>7</b>	<b>Market failures which hinder efficient allocation of resources occur due to</b>
a) Imperfect competition and presence of monopoly power b) Externalities c) Inequalities in distribution of income. d) All of the above	
<b>8</b>	<b>Which one is the Allocation instrument which government can use to influence resource allocation ?</b>
a) Government may directly produce an economic good b) Employment reservations c) Special schemes for backward regions d) All of the above	
<b>9</b>	<b>Using the proceeds from progressive taxes used for financing public services that benefit low-income households, is an example of _____</b>
a) Allocation Function b) Redistribution Function c) Stabilisation Function d) None of the above	

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<b>10</b>	<b>Aim of Redistribution Function is _____</b>
<p>a) Achieve an equitable distribution of societal output among households</p> <p>b) Advancing the well-being of those members of the society who suffer from deprivations</p> <p>c) Providing equality in income, wealth and opportunities</p> <p>d) All of the above</p>	

<b>11</b>	<b>Allocation Function in Govt Budgeting determines _____</b>
<p>a) Who and what will be taxed</p> <p>b) how and on what the government revenue will be spent</p> <p>c) Level of involvement of public sector in economy</p> <p>d) All of the above</p>	

<b>12</b>	<b>Macro economic stability is said to exist when :</b>
<p>a) Economy's output = production capacity</p> <p>b) Economy's total spending = total output</p> <p>c) Economy's labour resources are fully employed and inflation is low and stable.</p> <p>d) All of the above</p>	

<b>13</b>	<b>Govt's stabilization intervention may be through _____</b>
<p>a) Foreign Exchange</p> <p>b) Monetary policy &amp; Fiscal policy</p> <p>c) Both a and b</p> <p>d) None of the above</p>	

<b>14</b>	<b>Fiscal federalism, a term introduced by _____</b>
<p>a) Buchanan</p> <p>b) Keynes</p> <p>c) Richard Musgrave</p> <p>d) None of the above</p>	

<b>15</b>	<b>India is a federation of _____</b>
<p>a) 28 states and 7 union territories.</p> <p>b) 28 states and 8 union territories.</p> <p>c) 27 states and 7 union territories.</p> <p>d) 27 states and 8 union territories.</p>	

<b>16</b>	<b>Federalism is an institutional arrangement to accommodate two sets of government – one at the national level and the other at _____</b>
<p>a) Regional level</p> <p>b) State Level</p> <p>c) International level</p> <p>d) District level</p>	

<b>17</b>	<b>In order to control high inflation, the government may</b>
<p>a) Decrease expenditure &amp; raise tax</p> <p>b) Increase expenditure &amp; raise tax</p> <p>c) Decrease expenditure &amp; reduce tax</p> <p>d) Increase expenditure &amp; reduce tax</p>	

<b>18</b>	<b>Finance Commission is responsible for _____</b>
<p>a) Evaluating the state of finances of union and state Government</p> <p>b) Recommending the sharing of taxes between them\</p> <p>c) Laying down the principles determining the distribution of these taxes among states</p> <p>d) All of the above</p>	

<b>19</b>	<b>The 15<sup>th</sup> Finance Commission was constituted on _____</b>
<p>a) 24<sup>th</sup> Nov 2017</p> <p>b) 21<sup>st</sup> Nov 2017</p> <p>c) 27<sup>th</sup> Nov 2017</p> <p>d) 23<sup>th</sup> Nov 2017</p>	

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<b>20</b>	<b>GST accounts for _____</b>
a) 35% of gross tax revenue of union & 44% tax revenue of state b) 40% of gross tax revenue of union & 60% tax revenue of state c) 25% of gross tax revenue of union & 24% tax revenue of state d) 55% of gross tax revenue of union & 35% tax revenue of state	

<b>21</b>	<b>How can government perform redistribution function on the expenditure side of the budget?</b>
a) By providing free or subsidised education, healthcare, etc to deserving people b) Through progressive taxation c) Both a & b d) None of the above	

<b>22</b>	<b>_____ deals with the division of governmental functions and financial relations among the different levels of government</b>
a) Vertical Equity b) Horizontal Equity c) Fiscal Federalism d) Either a or b	

<b>23</b>	<b>Article _____ of the Constitution demarcates powers of union &amp; state by classifying their powers into three lists</b>
a) 268 b) 269 c) 246 d) 275	

<b>24</b>	<b>In the event of conflicting legislation in concurrent list, the law passed by the _____ prevails</b>
a) State Government b) Central Government c) Chief Minister of State d) Both a & c	

<b>25</b>	<b>Who can levy taxes on agricultural income?</b>
a) State Government b) Central Government c) Both a & b d) None of the above	

<b>25</b>	<b>Who can levy taxes on agricultural income?</b>
a) State Government b) Central Government c) Both a & b d) None of the above	

<b>26</b>	<b>Finance Commission recommended share of states in the central taxes (vertical devolution) for year 2021-26 to be _____</b>
a) 35% b) 44% c) 42% d) 41%	

<b>27</b>	<b>Borrowing by the government of India and borrowing by states are defined under _____ of Constitution of India</b>
a) Article 246 & 247 b) Article 268 & 269 c) Article 292 & 293 d) Article 255 & 256	

<b>28</b>	<b>_____ is entrusted with providing social sector services such as health and education, police protection</b>
a) Central Government b) State Government c) Local self governments d) All of the above	

29 \_\_\_\_\_ is entrusted with providing public utility services such as water supply and sanitation

a) Central Government  
b) State Government  
c) Local self governments  
d) All of the above

30 While recommending transfers, the Finance Commission considers issues related to \_\_\_\_\_, which deals with deciding about the share of all states in the revenue collected by centre

a) Horizontal equity  
b) Vertical Equity  
c) Parallel Equity  
d) All of the above

31 GST was rolled out in India on \_\_\_\_\_

a) 1<sup>st</sup> April 2014  
b) 1<sup>st</sup> April 2017  
c) 1<sup>st</sup> July 2014  
d) 1<sup>st</sup> July 2017

32 For any particular good or service or a combination of the two, what is the ratio of SGST and CGST rates ?

a) 59% CGST & 41% SGST  
b) 70% CGST & 30% SGST  
c) 30% CGST & 70% SGST  
d) Both rates are equal

33 GST Compensation cess amount was given to \_\_\_\_\_

a) The companies who suffered loss due to high rates of GST  
b) Compensate the lower rates on essential items  
c) Compensate the central government for the loss of revenue due to introduction of GST  
d) The manufacturing states for loss of revenue arising on account of implementation of GST

34 \_\_\_\_\_ is applied on inter-state movement of goods and services and on imports and exports

a) CGST  
b) SGST  
c) IGST  
d) UTGST

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**Answer Key –Chapter 7 - New MCQs (Unit – 1)**

1	D	6	C	11	D	16	A	21	A	26	D	31	D
2	B	7	D	12	D	17	A	22	C	27	C	32	D
3	B	8	A	13	B	18	D	23	C	28	B	33	D
4	D	9	B	14	C	19	C	24	B	29	C	34	C
5	D	10	D	15	B	20	A	25	A	30	B		

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**New MCQs**

**UNIT 2**

**1 Complete Market failure occurs when \_\_\_\_\_**

- a) The market does not supply products at all despite the fact that such products and services are wanted by people.
- b) The market does actually function but it produces wrong quantity or at wrong price.
- c) Both a and b
- d) None of the above

**2 Externalities can be \_\_\_\_\_**

- a) Negative Externalities
- b) Positive Externalities
- c) Both a and b
- d) None of the above

**3 Externalities are also be referred to as \_\_\_\_\_**

- a) Spillover effects
- b) Neighborhood effects
- c) Third party effects or side effects
- d) All of the above

**4 Which of the below is initiated in production and imposes an external cost on others?**

- a) Negative Consumption Externality
- b) Negative Production Externality
- c) Positive Production Externality
- d) Positive Consumption Externality

**5 Which of the below is initiated in Consumption and confers external benefits on others?**

- a) Negative Consumption Externality
- b) Positive Production Externality
- c) Negative Production Externality
- d) Positive Consumption Externality

**6 Which of the following is true? Social Cost are \_\_\_\_\_**

- a) Social Cost are costs borne by individuals directly involved in a transaction
- b) Social Cost are external costs borne by third parties not directly involved in transaction.
- c) Social Cost = Private cost + External Cost
- d) All of the above

**7 Who gave the concept of "collective consumption good" in his paper "The pure theory of Public Expenditure" ?**

- a) Paul A. Samuelson
- b) Garrett Hardin
- c) Oakland and Sandmo
- d) Buchanan

**8 Characteristics of Public Goods are-**

- a) Consumption of a public good by one individual does not reduce the quality or quantity available for all other
- b) Public goods are not vulnerable to free-rider problem
- c) it is possible to exclude or prevent consumers who have not paid for them
- d) All of the above

**9 Though public goods are extremely valuable for the well-being of the society, left to the market, they will be \_\_\_\_\_**

- a) Over-produced
- b) Not be produced at all
- c) Under-produced
- d) Both b & c

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<b>10</b>	<b>Government intervention to correct Negative Externalities are _____</b>
<p>a) Direct Controls b) Market Based Policies c) Market liberalisation d) a and b above</p>	
<b>11</b>	<b>The use of tradable permits to limit emissions is often called _____</b>
<p>a) Cap and trade b) Permit and Trade c) Both a and b d) None of the above</p>	
<b>12</b>	<b>Which statement is correct with regard to Demerit goods?</b>
<p>a) Demerit goods are socially undesirable b) The production and consumption of demerit goods are likely to be more than optimal under free markets. c) Both a and b d) None of the above</p>	
<b>13</b>	<b>Examples of Demerit goods are _____</b>
<p>a) Cigarettes b) Education c) Health care d) All of the above</p>	
<b>14</b>	<b>Which are the goods are produced and consumed as public goods and services despite the fact that they can be produced or consumed as private goods which may prove dangerous to society.</b>
<p>a) scientific approval of drugs, b) production of strategic products such as atomic energy, c) provision of security at airports etc d) All of the above</p>	

<b>15</b>	<b>Measures to minimize the market power are _____</b>
<p>a) Market liberalisation by introducing competition in previously monopolistic sectors such as energy, telecommunication etc b) Limiting amount of pollutants released into water c) Charge an emissions fee which is levied on each unit of a firm's emissions d) All of the above</p>	
<b>16</b>	<b>When pollution of river affects fish output as there will be less catch for fishermen due to loss of fish resources This is an example of _____</b>
<p>a) negative production externality is received in consumption b) negative production externality is received in production c) negative consumption externality is received in production d) negative consumption externality is received in consumption</p>	
<b>17</b>	<b>When an individual raises an attractive garden and the persons walking by enjoy the garden This is an example of _____</b>
<p>a) negative production externality is received in consumption b) positive production externality is received in production c) positive production externality is received in consumption d) positive consumption externality is received in production</p>	

18 Smoking cigarettes in public place causing passive smoking by others  
This is an example of \_\_\_\_

a) negative production externality is received in consumption  
b) negative production externality is received in production  
c) negative consumption externality is received in production  
d) negative consumption externality is received in consumption

19 If people get immunized against contagious diseases, they would confer a social benefit to others as well by preventing others from getting infected.  
This is an example of \_\_\_\_

a) Positive production externality is received in consumption  
b) Positive production externality is received in production  
c) Negative consumption externality is received in production  
d) Positive consumption externality is received in consumption

20 Excessive consumption of alcohol causing impairment in efficiency for work.  
This is an example of \_\_\_\_

a) negative production externality is received in consumption  
b) negative production externality is received in production  
c) negative consumption externality is received in production  
d) negative consumption externality is received in consumption

21 A firm which offers training to its employees for increasing their skills generates benefits on other firms when they hire such workers as they change their jobs  
This is an example of \_\_\_\_

a) Positive production externality is received in consumption  
b) Positive production externality is received in production  
c) Positive consumption externality is received in production  
d) Positive consumption externality is received in consumption

22 A firm which offers training to its employees for increasing their skills generates benefits on other firms when they hire such workers as they change their jobs  
This is an example of \_\_\_\_

a) Positive production externality is received in consumption  
b) Positive production externality is received in production  
c) Positive consumption externality is received in production  
d) Positive consumption externality is received in consumption

23 \_\_\_\_ occurs when there is an imbalance in information between the buyer and the seller i.e. when the buyer knows more than the seller or the seller knows more than the buyer

a) Asymmetric information  
b) Symmetric information  
c) Perfect information  
d) All of the above

24 The concept of Lemons Problem was given by \_\_\_\_

a) Paul Samuelson  
b) JM Keynes  
c) Baumol & Tobin  
d) George Akerlof

25 \_\_\_\_ is about informed person's taking advantage of a less-informed person through an unobserved action

a) Adverse Selection  
b) Asymmetric Information  
c) Moral Hazard  
d) None of the above

25 \_\_\_\_ is about informed person's taking advantage of a less-informed person through an unobserved action

a) Adverse Selection  
b) Asymmetric Information  
c) Moral Hazard  
d) None of the above

26 The concept of Pollution Tax was given by \_\_\_\_

a) AC Pigou  
b) JM Keynes  
c) Hawtrey  
d) George Akerlof

27 Problems in administering an efficient pollution tax are \_\_\_\_

a) Easy to determine and administer because it involves the use of cheaper administrative procedures  
b) If the demand for the good is inelastic, the tax may have only an insignificant effect in reducing demand  
c) High pollution taxes in one country may lead to high FDI  
d) All of the above

28 \_\_\_\_ are goods that have substantial positive externalities and hence they are socially desirable

a) Public goods  
b) Wage goods  
c) Merit goods  
d) Demerit goods

29 \_\_\_\_ is a maximum price sellers are allowed to charge for a good or service

a) Price floor  
b) Price ceiling  
c) Both a & b  
d) None of the above

30 Setting of minimum support price by the government is an example of \_\_\_\_

a) Price floor  
b) Price ceiling  
c) Both a & b  
d) None of the above

30 Setting of minimum support price by the government is an example of \_\_\_\_

a) Price floor  
b) Price ceiling  
c) Both a & b  
d) None of the above

31 When prices which are set below the market price is called

a) Price floor  
b) Price ceiling  
c) Both a & b  
d) None of the above

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Answer Key – Chapter 7 New MCQs (Unit – 2)

1	A	6	C	11	A	16	B	21	B	26	A	31	B
2	C	7	A	12	C	17	C	22	B	27	B		
3	D	8	A	13	A	18	D	23	A	28	C		
4	B	9	D	14	D	19	D	24	D	29	B		
5	D	10	D	15	A	20	C	25	C	30	A		

**New MCQs**

**UNIT 3**

**1. A budget is a statement that presents the details of \_\_\_\_\_**

- a) where the money comes from'
- b) where the money goes to
- c) Both a and b
- d) None of the above

**2. The budget also contains estimates of the government's accounts for the next fiscal year called \_\_\_\_\_**

- a) budgeted estimates.
- b) comprehensive report
- c) Consolidated report
- d) None of the above

**3. The budget is prepared by the Ministry of Finance in consultation with \_\_\_\_\_**

- a) Prime Minister
- b) NITI Aayog and other relevant ministries
- c) President
- d) Leader of the Opposition

**4. Which Article of the constitution provides that in respect of every financial year the 'president shall cause to be laid before both the houses of parliament the "Annual Financial Statement"**

- a) Article 110
- b) Article 112
- c) Article 113
- d) Article 114

**5. The budgetary procedures are-**

- a) Preparation of the budget
- b) Presentation and enactment of the budget
- c) Execution of the budget
- d) All of the above

**6. The finance minister makes a detailed budget speech at the time of presenting the budget before the \_\_\_\_\_**

- a) Lok Sabha
- b) Rajya Sabha
- c) Vidhan Sabha
- d) All of the above

**7. The budget documents depict information relating to receipts and expenditure for two years. They are:**

- a) Budget estimates (BE) of receipts and expenditure in respect of current and ensuing financial year
- b) For the current year through Revised Estimates (RE); and
- c) Actuals of the year preceding the current year
- d) All of the above

**8. Part A of the budget speech gives an outline of \_\_\_\_\_**

- a) the progress the government has made on various developmental measures, the direction of future policies and the government's tax proposals
- b) the prevailing macro economic situation of the country and the budget estimates for the next financial year.
- c) Both a and b
- d) None of the above

**9. The budget process mainly consists of \_\_\_\_\_**

- a) The administrative process, wherein the budget along with the accompanying documents are prepared in consultation with various stakeholders;
- b) The legislative process wherein the budget is passed by the parliament after discussions.
- c) Both a and b
- d) None of the above



**10** By convention in an election year, the budget may be presented \_\_\_\_\_

a) Once  
b) Twice  
c) Thrice  
d) Four times

**11** The Parliament has to pass the Finance Bill within \_\_\_\_\_ of its introduction

a) 30 days  
b) 45 Days  
c) 60 Days  
d) 75 Days

**12** \_\_\_\_\_ is intended to give authority to government to incur expenditure from and out of Consolidated Fund of India

a) Policy Cut Motions  
b) Guillotine  
c) Appropriation Bill  
d) Finance Bill

**13** Department of Revenue exercises control for matters relating to direct & indirect union taxes through \_\_\_\_\_

a) Central Board of Direct Taxes (CBDT) and  
b) Central Board of Indirect Taxes and Customs (CBIC)  
c) Both a & b  
d) Ministry of Finance

**14** \_\_\_\_\_ consists of tax revenue and non tax revenue

a) Revenue Expenditure  
b) Revenue Receipts  
c) Capital Expenditure  
d) Capital Receipts

**15** Centre's net tax revenue is the total of tax revenue after paying of \_\_\_\_\_

a) states' share  
b) National Calamity Contingent duty (NCCD)  
c) Both a and b  
d) None of the above

**16** The institutions responsible for public debt management are:

a) Reserve Bank of India  
b) Ministry of Finance (MOF)  
c) Both b and c  
d) None of the above

**17** Which of the following is/are Non-Tax Revenue of govt?

a) Customs duties  
b) Union excise duties  
c) Interest Receipts  
d) All of the above

**18** Recoveries of loans and advances is an example of \_\_\_\_\_

a) Non debt capital receipts  
b) Debt capital receipts  
c) Capital Expenditure  
d) Revenue Expenditure

**18** Recoveries of loans and advances is an example of \_\_\_\_\_

a) Non debt capital receipts  
b) Debt capital receipts  
c) Capital Expenditure  
d) Revenue Expenditure

**19** The economic costs of unproductive public expenditures can be extensive and may have far reaching effects such as-

a) larger deficits  
b) higher levels of taxation,  
c) lower economic growth  
d) All of the above

20 \_\_\_\_\_ is nodal department for overseeing the public financial management system in the central government and matters connected with state finances

a) Department of Revenue  
b) Department of Expenditure  
c) Central Board of Direct Taxes (CBDT)  
d) Both a & c

21 \_\_\_\_\_ consists of relevant data across all ministries/ departments to outline a profile of the general financial performance of the government of India. It gives an aggregation of various types of expenditure and certain other items across demands

a) Revenue Profile  
b) Expenditure Profile  
c) Both a & b  
d) None of the above

22 \_\_\_\_\_ acts as the debt manager for marketable internal debt

a) Department of Economic Affairs  
b) Ministry of Finance  
c) RBI  
d) Both a & b

23 External debt (bilateral and multilateral loans) is managed by \_\_\_\_\_

a) Department of Economic Affairs in the Ministry of Finance  
b) RBI  
c) Department of Revenue  
d) Both a & b

24 When govt. spends less than receipts the budget becomes \_\_\_\_\_

a) Deficit  
b) Surplus  
c) Balanced  
d) Any of the above

25 The risk associated with external debt is the \_\_\_\_\_ vis-à-vis the currency of denomination of external loans leading to \_\_\_\_\_ in the government's debt servicing cost

- a) appreciation in the value of domestic currency, increase  
b) depreciation in the value of foreign currency, increase  
c) appreciation in the value of domestic currency, decrease  
d) depreciation in the value of domestic currency, increase

26 \_\_\_\_\_ lead to a reduction in assets or an increase in liabilities of govt

a) Revenue Expenditure  
b) Revenue Receipts  
c) Capital Expenditure  
d) Capital Receipts

27 Interest payments on debt is an example of \_\_\_\_\_

a) Revenue Expenditure  
b) Revenue Receipts  
c) Capital Expenditure  
d) Capital Receipts

28 \_\_\_\_\_ shows the government revenue is insufficient to meet the regular expenditures in connection with the normal functioning of the government

a) Revenue Deficit  
b) Budgetary Deficit  
c) Fiscal Deficit  
d) Primary Deficit

29 The excess of total expenditure over total receipts excluding borrowings during a given fiscal year is called the \_\_\_\_\_

a) Revenue Deficit  
b) Budgetary Deficit  
c) Fiscal Deficit  
d) Primary Deficit

30 \_\_\_\_\_ shows the total borrowing requirements of the government from all sources.

a) Revenue Deficit  
b) Budgetary Deficit  
c) Fiscal Deficit  
d) Primary Deficit

31 In case revenue deficit occupies a substantial share of fiscal deficit, it is an indication that a large part of borrowing is used for \_\_\_\_\_

a) investment purposes rather than for consumption  
b) consumption purposes rather than for investment  
c) creation of assets  
d) Investment purposes

32 \_\_\_\_\_ tells how much of the government's borrowings are going towards meeting expenses other than interest payments

a) Revenue Deficit  
b) Budgetary Deficit  
c) Fiscal Deficit  
d) Primary Deficit

33 \_\_\_\_\_ is a progress card on what various ministries and departments have done with the outlays in the previous annual budget.

a) Cut Motions  
b) Guillotine  
c) Outcome budget  
d) Consolidated Fund of India

34 Motions for reduction to various demands for grants are made in the form of \_\_\_\_\_ seeking to reduce sums sought by govt on grounds of economy or difference of opinion

a) Cut Motions  
b) Guillotine Motion  
c) Outcome budget  
d) Consolidated Fund of India

35 Once the prescribed period for the discussion on demands for grants is over, the speaker of Lok Sabha puts all the outstanding demands for grants, whether discussed or not, to the vote of the house. This is known as \_\_\_\_\_

a) Cut Motions  
b) Guillotine  
c) Outcome budget  
d) Consolidated Fund of India

36 The motion for leave to introduce a finance bill \_\_\_\_\_

a) can be opposed  
b) can be opposed by Lok Sabha  
c) can be opposed by Rajya Sabha  
d) cannot be opposed

37 The finance bill is taken up for consideration and passing \_\_\_\_\_ the Appropriation Bill is passed.

a) Before  
b) After  
c) At the same time  
d) Any of the above

38 The recommendations of Rajya Sabha on Finance Bill \_\_\_\_\_ by the Lok Sabha

a) Must be accepted  
b) May be accepted or rejected  
c) Have to be accepted  
d) Are always rejected

39 The \_\_\_\_\_ seeking to give effect to the government's taxation proposals is introduced in Lok Sabha immediately after the presentation of the general budget

a) Appropriation Bill  
b) Finance Bill  
c) Guillotine  
d) Expenditure Profile

40 All revenues received, loans raised and all moneys received by the government in repayment of loans are credited to \_\_\_\_\_

a) Consolidated Fund of India  
b) Contingency Fund of India  
c) Contingency Fund of State  
d) Public Account

41 \_\_\_\_\_ is a fund placed at the disposal of the President to enable him/her to make advances to the executive/Government to meet urgent unforeseen expenditure

a) Consolidated Fund of India  
b) Contingency Fund of India  
c) Contingency Fund of State  
d) Public Account

42 Under Article 266(1) of the Constitution of India, \_\_\_\_\_ is used in relation to all the fund flows where government is acting as a banker. The expenditure from this fund need not be approved by the parliament.

a) Consolidated Fund of India  
b) Contingency Fund of India  
c) Contingency Fund of State  
d) Public Account

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**Answer Key – Chapter 7 New MCQs (Unit – 3)**

1	C	6	A	11	D	16	C	21	B	26	D	31	B	36	D	41	B
2	A	7	D	12	C	17	C	22	C	27	A	32	D	37	B	42	D
3	B	8	B	13	C	18	A	23	A	28	A	33	C	38	B		
4	B	9	C	14	B	19	D	24	B	29	C	34	A	39	B		
5	D	10	B	15	C	20	B	25	D	30	C	35	B	40	A		

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**New MCQs**

**UNIT 4**

1 Fiscal policy is the deliberate policy of govt. where it uses

- a) instruments of taxation,
- b) public expenditure
- c) public borrowing
- d) All of the above

2 Fiscal policy is in the nature of a \_\_\_\_\_

- a) demand-side policy
- b) Supply-side policy
- c) Cost-side policy
- d) Price-side policy

3 An economy which is producing at \_\_\_\_\_ does not require government action in the form of fiscal policy

- a) full-employment level
- b) Less than full-employment level
- c) More than full-employment level
- d) Both b & c

4 \_\_\_\_\_ were of the belief that the government should not intervene in the economy because the market mechanism makes the economy self-adjusting and keeps the economy at or near the natural level of real GDP at all times

- a) Modern Economists
- b) Keynes & related economists
- c) Classical Economists
- d) Both a & b

5 Public Debt may be \_\_\_\_\_

- a) Internal Debt
- b) External Debt
- c) Both a and b
- d) None of the above

6 During recession, if Government increases the taxes, it will be self defeating as \_\_\_\_\_ taxes will \_\_\_\_\_ the disposable incomes and thus aggregate demand

- a) increased, reduce
- b) decreased, reduce
- c) increased, increase
- d) decreased increase

7 Tax as an instrument of fiscal policy consists of changes in \_\_\_\_\_ aimed at encouraging or restricting private expenditures on consumption and investment.

- a) Government revenue
- b) Rates of taxes
- c) Either a or b
- d) None of the above

8 The most common objectives of fiscal policy are:

- a) Achievement and maintenance of full employment
- b) Maintenance of price stability,
- c) Acceleration of rate of economic development
- d) All of the above

9 \_\_\_\_\_ may get higher priority in developing countries as objectives of fiscal policy

- a) stability and equality
- b) Stability
- c) economic growth
- d) economic growth, employment and equity

10 Policy used to close the recessionary gap is \_\_\_\_\_

- a) Anti-inflationary fiscal policy
- b) Contractionary fiscal policy
- c) Expansionary fiscal Policy
- d) Recessionary fiscal policy

11	Fiscal policies such as those involving infrastructure spending generally have _____ supply-side effects.	15	Under _____, fiscal policy becomes ineffective as the decline in private spending partially or completely offsets the expansion in demand resulting from an increase in government expenditure
<p>a) Negative b) Positive c) Balanced d) None of the above</p>		<p>a) Liquidity Trap b) Economics Bads c) Crowding Out effect d) Impact Lag</p>	
12	What measures can government take to achieve desired redistribution of income.	16	Decrease in government spending & increase in taxes is an example of _____
<p>a) Progressive direct tax system b) Indirect taxes can be differential. More tax on Luxury goods, Less tax on Necessities c) Both a and b d) None of the above</p>		<p>a) Anti-inflationary monetary policy b) Contractionary fiscal policy c) Expansionary fiscal Policy d) Recessionary monetary policy</p>	
13	What are the limitations of Fiscal Policy?	17	Contractionary fiscal policy should ideally lead to a _____ government budget deficit or a _____ budget surplus
<p>a) Bad Timing b) Practically difficult to reduce in Govt. Borrowings c) Difficulties in instantaneously changing Govt. spending &amp; taxation policies d) All of the above</p>		<p>a) Smaller, smaller b) Smaller, larger c) Larger, larger d) Larger, smaller</p>	
14	_____ means when there are possible delays in bringing in legislation and implementing them on account of bureaucracy	18	Government expenditures related to meet the day to day running of the government are called as _____
<p>a) Recognition Lag b) Decision Lag c) Implementation Lag d) Impact Lag</p>		<p>a) current expenditures b) capital expenditures c) transfer payments d) Revenue receipts</p>	
19	Government expenditure is _____ when there is a fear of inflationary rise in prices	<p>a) Increased b) Decreased c) Remains same d) Both a &amp; b</p>	

**20** During recession and depression, government can

a) Levy new taxes  
b) Increase the rates of existing taxes  
c) Lower the tax rates  
d) Both a & b

**21** During inflation, government can

a) Levy new taxes  
b) Increase the rates of existing taxes  
c) Lower the tax rates  
d) Both a & b

**22** When the government borrows from its own people in the country, it is called \_\_\_\_\_

a) external debt  
b) internal debt  
c) Market loan  
d) Revenue receipts

**23** In case of \_\_\_\_\_, the government issues treasury bills and government securities of varying denominations and duration which are traded in debt markets

a) external debt  
b) internal debt  
c) Market loan  
d) Small savings

**24** For financing capital projects of government, long-term capital bonds are floated and for meeting short-term government expenditure, \_\_\_\_\_ are issued.

a) Commercial Papers  
b) Long term debentures  
c) Treasury bills  
d) Small savings loans

**25** National Savings Certificates is an example of \_\_\_\_\_

a) Commercial Papers  
b) Market loans  
c) Treasury bills  
d) Small savings

**26** \_\_\_\_\_ has negative net effect on aggregate demand since leakages will be greater than injections.

a) Balanced Budget  
b) Budget Surplus  
c) Budget Deficit  
d) Both b & c

**27** Which of the following is not effective in reduction in inequalities of income

a) progressive direct tax system  
b) Differential indirect taxes, high tax on luxury items and lower tax on necessities  
c) poverty alleviation programmes  
d) Regressive direct tax system

**28** Which of the following is a recognition lag?

a) Delay in recognizing the need for a policy change  
b) Delay in making a decision on the most appropriate policy  
c) Delay in bringing in legislation and implementing them on account of bureaucracy  
d) When outcomes of a policy are not visible for some time

**Answer Key – Chapter 7 New MCQs (Unit – 4)**

1	D	6	A	11	B	16	B	21	D	26	B
2	A	7	C	12	C	17	B	22	B	27	D
3	A	8	D	13	D	18	A	23	C	28	A
4	C	9	D	14	C	19	B	24	C		
5	C	10	C	15	C	20	C	25	D		



CA Foundation – New Syllabus  
Business Economics

Chapter 7  
**PUBLIC FINANCE**

**ICAI Extra MCQs**

MCQ Compiler by MVSIR



**ICAI Extra MCQs**

<b>1</b>	<b>Contractionary fiscal policy can involve:</b>
	<ul style="list-style-type: none"> <li>a) Increasing consumption and investment and taxes.</li> <li>b) Decreasing government spending and increasing taxes.</li> <li>c) Increasing government spending and increasing taxes.</li> <li>d) None of the above</li> </ul>
<b>2</b>	<b>Objective of Fiscal policies are:</b>
	<ul style="list-style-type: none"> <li>a) Increase Export of the country</li> <li>b) Make currency of the country stronger</li> <li>c) Reduce interest rate</li> <li>d) Maintenance of price stability</li> </ul>
<b>3</b>	<b>Simplifying assumptions for money multiplier are:</b>
	<ul style="list-style-type: none"> <li>a) Banks never hold excess reserves</li> <li>b) Individuals and non bank corporation never</li> <li>c) Both a and b</li> <li>d) None of these</li> </ul>
<b>8</b>	<b>FEMA stands for:</b>
	<ul style="list-style-type: none"> <li>a) Foreign exchange Management Act.</li> <li>b) Founds exchange management Act.</li> <li>c) Finance Enhancement Monetary Act.</li> <li>d) Future Exchange Management Act.</li> </ul>
<b>6</b>	<b>Market Failure is situation:</b>
	<ul style="list-style-type: none"> <li>a) Free market leads to misallocation of society's scarce resources</li> <li>b) Overproduction or underproduction of particular goods and service</li> <li>c) Less than optimal outcome</li> <li>d) All of the above</li> </ul>

<b>7</b>	<b>Social Cost =</b>
	<ul style="list-style-type: none"> <li>a) Private cost</li> <li>b) External cost</li> <li>c) Private cost + external cost</li> <li>d) Private cost and external cost</li> </ul>
<b>4</b>	<b>Tragedy of the commons was first described by:</b>
	<ul style="list-style-type: none"> <li>a) Garrett Hardin</li> <li>b) John Keynesian</li> <li>c) Adam Smith</li> <li>d) Alfrad Marshal</li> </ul>
<b>5</b>	<b>Which of the following is not a feature of public good?</b>
	<ul style="list-style-type: none"> <li>a) Rivalry in consumption</li> <li>b) Non excludable</li> <li>c) Free Rider</li> <li>d) Indivisibility of good</li> </ul>
<b>9</b>	<b>Mr. Amit, a stock market trader through inside information, comes to know that share price of X Ltd is likely to go up in future, so he purchases the shares to make a gain by selling them later at higher price. It is a case of:</b>
	<ul style="list-style-type: none"> <li>a) Moral Hazard</li> <li>b) Asymmetric information</li> <li>c) Free Riding</li> <li>d) None of the above</li> </ul>
<b>10</b>	<b>Which of the following steps are taken by Govt. to correct market failure?</b>
	<ul style="list-style-type: none"> <li>a) Issuing a fixed number of permits, to limit the total level of pollution than can be legally emitted during each period.</li> <li>b) Subsidizing the production of merit goods</li> <li>c) Making it mandatory to have accurate labelling and disclosures by producers.</li> <li>d) All of these</li> </ul>

11 Which of the following can be said to be true about merit Goods?

- a) Socially desirable
- b) Likely to be under-produced/under-consumed
- c) Requires Govt. support
- d) All of the above

12 MPC is required to meet at least:

- a) Two times
- b) Six times
- c) For times
- d) Three times

13 Which of the following steps under the fiscal policy is an example of stabilizing the economy?

- a) Making payments towards pensions for retired military personnel.
- b) Making payments towards unemployment insurance benefits.
- c) Allocating more capital for spending on the construction of national highways.
- d) Decreasing the supply of money within the economy.

14 As per Tobin's theory demand for money as a store of wealth depends negatively on:

- a) Inflation rate
- b) Exchange rate
- c) Interest rate
- d) None of the above

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15 Which of the following is not true regarding the minimum support price (MSP) mechanism in India?

- a) MSP works on the principle of price ceiling
- b) MSP works on the principle of price flooring
- c) At the price fixed, there exists excess supply
- d) Govt. procures the excess supply of farmers.

16 Recently, in this year's budget the Government increased the Tax on Cigaretter. This is an example of which function of public finance?

- a) Allocation Function
- b) Redistribution Function
- c) Normative Function
- d) Stabilization Function

17 Which of the following is not a type of externality?

- a) Positive Externality
- b) Reciprocal Externality
- c) Unidirectional Externality
- d) Partial externality

18 The Government adopting Progressive taxation System to tax people on the level of their income is an example of which function of public finance?

- a) Redistribution Function
- b) Allocation Function
- c) Normative Function
- d) Stabilization

19 What are functions of Government in economy?

- a) Allocation Function
- b) Redistribution Function
- c) Stabilization Function
- d) All of the above

**20** What are arguments against pollution tax?

a) It is difficult to determine  
 b) It have an insignificant effect in reducing demand  
 c) This does not provide any genuine solution  
 d) All of the above

**21** What is the terminology used by economists to describe a situation where rivalrous but non excludable goods are overused to the disadvantage of the entire world.

- a) Greenhouse Gas Effect  
 b) Land Erosion  
 c) Tragedy of the Commons  
 d) Degradation of Soil

**22** Deposit multiplier and money multiplier are not identical because:

- a) Banks do not lend out all of their available money  
 b) All borrowers do not spend every rupee  
 c) Both a and b  
 d) None of the above

**23** Scope of public finance includes:

- a) Public revenue  
 b) Public debt  
 c) Public expenditure  
 d) All of these

**24** A situation in which the economy is experiencing unemployment and inflation at the same time is known as?

- a) Contagion  
 b) Deflation  
 c) Stagflation  
 d) None of the above

**25** Inflation occurs whenever

- a) Aggregate demand rises  
 b) The price of any given commodity rises  
 c) The average price of most goods and services rises  
 d) The tax rate is lower than the government spending rate

**26** Which of the following is a measure of fiscal policy?

- a) Public expenditure  
 b) D.R.R.  
 c) S.L.R  
 d) Bank rate

**27** Education is an example of:

- a) Public good  
 b) Merit good  
 c) Social good  
 d) Club good

**28** Who is the father of Public Finance:

- a) Dalton  
 b) Pigou  
 c) Smith  
 d) Musgrave

**29** An expansionary fiscal policy is used for:

- a) Reduction in inflation  
 b) Increase in exports  
 c) Appreciation of currency  
 d) Close recessionary gap

**30** Which lag involves delays in bringing in legislation and implementing them?

- a) Decision lag  
 b) Impact lag  
 c) Implementation lag  
 d) Recognition lag

31 What was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003?

a) Achieve Fiscal Surplus  
b) Stop Money Laundering  
c) Eliminate Fiscal Deficit  
d) Eliminate Revenue deficit

32 Which of the main objective of a tax?

a) Increase in consumption  
b) Increase in production  
c) Raising public revenue  
d) Reduction in capital formation

33 The per capita income in country Y increased from INR 50,000 to INR 65,000 while the per capita consumption increased from INR 37,5000 to INR 48,750. calculate the spending multiplier for this economy?

a) 5  
b) 4  
c) 2.5  
d) 8

34 When expenditure exceeds total tax revenue it is called:

a) Surplus budget  
b) Deficit budget  
c) Balance budget  
d) None of these

35 Among the following canons of taxation which one has been given by Adam Smith?

a) Canon of Uniformity  
b) Canon of productivity  
c) Cannon of diversity  
d) Cannon of equity

36 An increase in tax rate when the tax base expands represents

a) Progressive taxation  
b) Regressive taxation  
c) Proportional taxation  
d) None of these

37 Which of the following act of government constitutes a Discretionary Fiscal Policy?

a) Unemployment Compensation  
b) Progressive taxation  
c) Change in slab rate of Income Tax  
d) Reduction in spending

38 Positive economics means

a) Does not depend on market interactions  
b) Only looks at the best parts of the economy  
c) Examines how the economy works(as opposed to how it should work)  
d) Is very subjective

39 Incidence of tax means

a) Direct money burden  
b) Indirect money burden  
c) Actual tax burden  
d) None of these

40 Which concept involves a one-shot injection of government expenditure into a depressed economy with the aim of boosting business confidence and encouraging larger private investment?

a) Pump Priming  
b) Deficit Financing  
c) Compensatory spending  
d) Public Spending

- 41 The increase in cost of food, fuel and fertilizers in countries due to production of weapons in the war between Russia & Ukraine results in which type of externality?
- a) Positive Production Externality
  - b) Negative Production Externality
  - c) Positive consumption Externality
  - d) Negative consumption Externality

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Answer Key – Ch 7 – ICAI Extra MCQs

1	B	11	D	21	C	31	C	41	B
2	D	12	C	22	C	32	C		
3	C	13	C	23	D	33	B		
4	A	14	C	24	C	34	B		
5	A	15	A	25	C	35	D		
6	D	16	A	26	A	36	A		
7	C	17	D	27	B	37	C		
8	A	18	A	28	D	38	C		
9	B	19	D	29	D	39	C		
10	D	20	D	30	C	40	A		

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Chapter 7  
**PUBLIC FINANCE**

**ICAI SM MCQs**

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**UNIT 1**

**Basic**

ICAI SM

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

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

ICAI SM

**2** Macroeconomic stabilization may be achieved through

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

ICAI SM

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

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

ICAI SM

**4** Choose the correct statement

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

ICAI SM

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

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

ICAI SM	
6	<p>Read the following statements: The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy Market failures can at all times be corrected through government intervention Public goods will not be produced in sufficient quantities in a market economy Of the three statements above:</p>
<p>a) 1,2 and 3 are correct b) 1 and 3 are correct c) 2 and 3 are correct d) 3 alone is correct</p>	

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

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

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

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

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



ICAI SM	
12	<p>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</p>
<p>a) I and II are correct b) II and III are correct c) I, II and III are correct d) All the above are correct</p>	

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

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

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

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

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

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



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

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

**Answer Key – Chapter 7 - ICAI SM MCQs (Unit – 1)**

1	B	6	B	11	C	16	D
2	D	7	B	12	A	17	B
3	B	8	B	13	C	18	C
4	C	9	C	14	C	19	B
5	D	10	B	15	D	20	B

**UNIT 2**

**Basic**

ICAI SM

**1** 'Market failure' is a situation which occurs when

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

**4** Markets do not exist

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM	
7	The free rider problem arises because of
	a) ability of participants to produce goods at zero marginal cost b) marginal benefit cannot be calculated due to externalities present c) the good or service is non excludable d) general poverty and unemployment of people

ICAI SM	
8	A chemical factory has full information regarding the risks of a product, but continues to sell it. This is possible because of
	a) asymmetric information b) moral hazard c) free riding d) (a) and (c) above

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

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

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

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

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

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

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

ICAI SM	
16	<b>The Competition Act, 2002 aims to __</b>
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	

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

ICAI SM	
18	<b>Identify the incorrect statement</b>
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 internalized 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 minimized in the most cost-effective way.	

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

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

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

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

ICAI SM	
23	<b>Read the following statements</b> 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 <b>Of the above</b>

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	
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ICAI SM	
24	<b>Government failure occurs when</b>
a) Government fails to implement its election promises on policies b) A government is unable to get reelected c) Government intervention is ineffective and produces fresh and more serious problems d) None of the above	

**Answer Key – Chapter 7 – ICAI SM MCQs (Unit – 2)**

1	C	6	A	11	D	16	B	21	D
2	B	7	C	12	C	17	C	22	D
3	C	8	A	13	C	18	C	23	B
4	B	9	B	14	D	19	C	24	C
5	C	10	A	15	C	20	D		

**UNIT 3**

**Basic**

ICAI SM	
1	The difference between the budget deficit of a government and its debt service payments is
a) Fiscal deficit b) Budget deficit c) Primary deficit d) None of the above	

The following hypothetical figures relate to country A

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

ICAI SM	
2	The revenue deficit for country A is
a) 5,000 b) 24,000 c) 4,500 d) None of the above	

ICAI SM	
3	Fiscal deficit of country A is
a) 14,000 b) 24,000 c) 23,000 d) None of the above	

ICAI SM	
4	Primary deficit of Country A is
a) 26,000 b) 26,500 c) 22,000 d) 24,500	

ICAI SM	
5	In NITI Aayog, NITI stands for
a) National Initiative for Transforming India b) National Institution for Transforming India c) National Institute for Technology and Innovation d) None of the above	

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

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

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

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

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

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

**The following table relates to the revenue and expenditure figures of a hypothetical economy**  
In Rs. lakh Crores

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

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

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



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

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

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

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

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

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

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

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

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

ICAI SM	
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.	

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

**Answer Key –Chapter 7 - ICAI SM MCQs (Unit - 3)**

1	C	6	B	11	A	16	D	21	B
2	C	7	C	12	A	17	D	22	B
3	B	8	B	13	C	18	D	23	B
4	C	9	B	14	B	19	B	24	C
5	B	10	D	15	D	20	D		

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**UNIT 4**

**Basic**

ICAI SM

1 Fiscal policy refers to the

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

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

ICAI SM	
7	<b>Which of the following may ensure a decrease in aggregate demand during inflation?</b>
a) decrease in all types of government spending and/ or an increase in taxes b) increase in government spending and/ or a decrease in taxes c) decrease in government spending and/ or a decrease in taxes d) All the above	

ICAI SM	
8	<b>A recession is characterized by</b>
a) Declining prices and rising employment b) Declining unemployment and rising prices c) Declining real income and rising unemployment. d) Rising real income and rising prices	

ICAI SM	
9	<b>Which one of the following is an example of fiscal policy?</b>
a) A tax cut aimed at increasing the disposable income and spending b) A reduction in government expenditure to contain inflation c) An increase in taxes and decrease in government expenditure to control inflation d) All the above	

ICAI SM	
10	<b>Which of the following would illustrate a recognition lag?</b>
a) The time required to identify the appropriate policy b) The time required to identify to pass a legislation c) The time required to identify the need for a policy change d) The time required to establish the outcomes of fiscal policy	

ICAI SM	
11	<b>An expansionary fiscal policy, taking everything else constant, would in the short-run have the effect of</b>
a) a relative large increase in GDP and a smaller increase in price b) a relative large increase in price, a relatively smaller increase in GDP c) both GDP and price will be increasing in the same proportion d) both GDP and price will be increasing in a smaller proportion	

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ICAI SM

12 Which statement (s) is (are) correct about crowding out?  
A decline in private spending may be partially or completely offset by the expansion of demand resulting from an increase in government expenditure.  
Crowding out effect is the negative effect fiscal policy may generate when money from the private sector is 'crowded out' to the public sector.  
When spending by government in an economy increases government spending would be crowded out.  
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

ICAI SM

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

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

ICAI SM

14 Identify the incorrect statement

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

15 Read the following statements

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

Of the above statements

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

ICAI SM	
16	<b>While resorting to expansionary fiscal policy</b>
<p>a) the government may possibly have a budget surplus as increased expenditure will bring more output and more tax revenue</p> <p>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</p> <p>c) it is important to have a balanced budget to avoid inflation and bring in stability</p> <p>d) None of the above will happen</p>	

ICAI SM	
17	<b>Contractionary fiscal policy</b>
<p>a) is resorted to when government expenditure is greater than tax revenues of any particular year</p> <p>b) increase the aggregate demand to sustain the economy</p> <p>c) to increase the disposable income of people through tax cuts and to enable greater demand</p> <p>d) is designed to restrain the levels of economic activity of the economy during an inflationary phase</p>	

ICAI SM	
18	<b>When government spending is deliberately reduced to bring in stability</b>
<p>a) the government is resorting to contractionary fiscal policy</p> <p>b) the government is resorting to expansionary fiscal policy</p> <p>c) trying to limit aggregate demand to sustainable levels</p> <p>d) (a) and c) above</p>	

ICAI SM	
19	<b>An increase in personal income taxes</b>
<p>a) reduces disposable incomes leading to fall in consumption spending and aggregate demand</p> <p>b) is desirable during inflation or when there is excessive levels of aggregate demand</p> <p>c) is to compensate the deficiency in effective demand by boosting aggregate spending</p> <p>d) both a) and b) are correct</p>	

ICAI SM	
20	<b>While the government resorts to deliberate fiscal policy it may not attempt to manipulate</b>
<p>a) Government expenditures on public works</p> <p>b) The rates of personal income taxes and corporate taxes</p> <p>c) Government expenditures on goods and services purchased by government</p> <p>d) The rate of interest prevailing in the economy</p>	

ICAI SM	
21	<b>Which of the following fiscal remedy would you advice when an economy is facing recession</b>
<p>a) the government may cut interest rates to encourage consumption and investment</p> <p>b) the government may cut taxes to increase aggregate demand</p> <p>c) the government may follow a policy of balanced the budget.</p> <p>d) None of the above will work</p>	

ICAI SM	
22	While if governments compete with the private sector to borrow money for securing resources for expansionary fiscal policy
a)	it is likely that interest rates will go up and firms may not be willing to invest
b)	it is likely that interest rates will go up and the individuals too may be reluctant to borrow and spend
c)	it is likely that interest rates will go up and the desired increase in aggregate demand may not be realized
d)	All the above are possible.

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Answer Key - Chapter 7 - ICAI SM MCQs (Unit - 4)

1	A	6	D	11	A	16	B	21	B
2	C	7	A	12	C	17	D	22	D
3	B	8	C	13	D	18	D		
4	B	9	D	14	A	19	D		
5	C	10	C	15	B	20	D		

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CA Foundation – New Syllabus  
Business Economics

Chapter 7  
**PUBLIC FINANCE**

**MTP MCQs**

MCQ Compiler by MVSIR



<b>MTP Apr 24</b>	
<b>1</b>	<b>What was the main objective of the Management Act, of 2003? Responsibility and Budget</b>
a) Achieve fiscal surplus b) Stop Money laundering c) Eliminate fiscal deficit d) Eliminate revenue deficit	

<b>MTP Apr 24</b>	
<b>2</b>	<b>Contractionary fiscal policy can involve:</b>
a) Increasing consumption and investment and taxes. b) Decreasing government spending and increasing taxes. c) Increasing government spending and increasing taxes. d) None of the above	

<b>MTP Apr 24</b>	
<b>3</b>	<b>'who gave 'the Theory of Public Finance (1959)</b>
a) Adam smith b) Richard Musgrave c) A.C. Pigou d) Alfred marshall	

<b>MTP Apr 24</b>	
<b>4</b>	<b>The stabilization function is consumed with the performance of the aggregate economy in the term of-</b>
a) Overall output & income b) General price level c) Balance of international payments d) All of these	

<b>MTP Apr 24</b>	
<b>5</b>	<b>Which of the following is an example of market failure?</b>
a) Externalities b) Low prices c) Excess supply d) Excludable and rival goods.	

<b>MTP Apr 24</b>	
<b>6</b>	<b>Which of the following is NOT a conclusion about market allocations of commodities causing pollution externalities?</b>
a) The prices of products responsible for pollution are too high. b) The output of the commodity is too large. c) Recycling and reuse of the polluting substances are discouraged since release into the environment is so inefficiently cheap. d) Too much pollution is produced.	

<b>MTP Apr 24</b>	
<b>7</b>	<b>Which of the following is not an example of a policy designed to encourage competition?</b>
a) Deregulation b) Trade liberalization c) Reducing income tax d) Anti-monopoly regulations	

<b>MTP Apr 24</b>	
<b>8</b>	<b>Which of the following is an example of an automatic stabilizer in the budget?</b>
a) Discretionary spending b) Progressive taxation c) Infrastructure investment d) Unemployment benefits	

<b>MTP Apr 24</b>	
<b>9</b>	<b>Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?</b>
a) National debt b) Budget surplus c) Fiscal deficit d) Revenue deficer	

MTP Apr 24	
10	Which of the following is an example of an automatic stabilizer of in budget?
a) Discretionary spending b) Progressive taxation c) Infrastructure investment d) Unemployment benefits	

MTP Apr 24	
11	What is the primary goal of countercyclical fiscal policy in budgeting?
a) Maximizing government revenue. b) Stabilizing the economy during economic downturns. c) Minimizing government intervention. d) Reducing public debt.	

MTP Apr 24	
12	Public goods are characterized by:
a) Excludability and rivalry b) Excludability and non-rivalry c) Non-excludability and rivalry d) Non-excludability and non-rivalry	

MTP Apr 24	
13	Which of the following is a common solution to the problem of common resources being overused?
a) Government regulation b) Privatization c) Subsidies d) Free-market competition	

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**Answer Key – Chapter 7 - MTP MCQs**

1	C	6	A	11	B
2	B	7	C	12	D
3	B	8	D	13	A
4	D	9	A		
5	A	10	D		

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CA Foundation – New Syllabus  
(New Syllabus)  
Business Economics

Chapter 8  
**MONEY MARKET**

**New MCQs by MVSIR**

MCQ Compiler by MVSIR

New MCQs by MVSIR

UNIT 1

1 Which of the following statements are false regarding 'Fiat money'?

- a) It is materially worthless, i.e. no intrinsic value
- b) It is similar to commodity money like gold, silver
- c) It has value because a nation collectively agrees to ascribe a value to it, as govt made them legal tender
- d) Both a & c

2 Money can be defined for policy purposes as \_\_\_\_\_

- a) certain liquid liabilities of a particular set of financial intermediaries or other issuers
- b) set of liquid financial assets, the variation in the stock of which could impact on aggregate economic activity
- c) A medium of exchange
- d) Both a & b

3 Which of the following is not a general characteristic of money?

- a) It should be generally accepted
- b) It should be effortlessly recognizable
- c) It should be abundant in supply
- d) It should be portable

4 Demand for money is \_\_\_\_\_

- a) Money which is deposited in bank account
- b) how much of one's given stock of wealth should be held in form of money rather than as other assets such as bonds
- c) Amount of money a person desires to hold with himself
- d) Both b & c

5 \_\_\_\_\_ the income of individuals, \_\_\_\_\_ the expenditure; richer people hold \_\_\_\_\_ money to finance their expenditure

- a) Lower, higher, less
- b) Lower, lower, more
- c) Higher, higher, more
- d) Higher, lower, more

6 The quantity which people desire to hold is \_\_\_\_\_ proportional to the prevailing price level

- a) Directly
- b) Inversely
- c) Negatively
- d) Both b & c

7 Innovations such as internet banking, application based transfers & ATMs \_\_\_\_\_ the need for holding liquid money

- a) Increase
- b) Reduce
- c) Does not affect
- d) None of the above

8 The Quantity theory of money was propounded by \_\_\_\_\_ of Yale University in his book '\_\_\_\_\_' published in 1911

- a) Adam Smith, Wealth of Nations
- b) Lionel Robbins, Nature & Significance of Economics
- c) Irving Fisher, The Purchasing Power of Money
- d) Baumol & Tobin, Inventory Approach

9 Velocity= 19, Price= 108.5  
No. of transactions= 120 crore  
Then, calculate M, as per quantity theory of money

- a) 17.18
- b) 685.26
- c) 21.01
- d) Any of the above

10	Calculate velocity of money, as per quantity theory of money when, Money Supply = 5000 billion Price = 110 Volume of transaction = 200
a) 2750 b) 4.40 c) 2.75 d) 9.09	

11	In the equation $MV = PT$ , Demand for money is denoted by ____
a) MV b) M c) PT d) T	

12	As per quantity theory of money ____
a) Money demand is inversely proportional to interest rates b) Money demand is directly proportional to income c) Money demand is directly proportional to number of transactions d) All of the above	

13	The expanded form of Quantity Theory of Money is ____
a) $MV = PT$ b) $M'V' = PT$ c) $MV + M'V' = PT$ d) $MV = P'T'$	

14	____ is also known as neo-classical theory
a) Keynesian Theory of Demand of Money b) Quantity Theory of Money c) Cash Balance Approach d) Both a & b	

15	Cambridge version holds that money increases utility in ____ ways
a) enabling the possibility of split-up of sale and purchase to two different points of time rather than being simultaneous b) being a hedge against uncertainty c) to take advantage of the future changes in the rate of interest d) Both a & b	

16	As per Cambridge approach, $M_d = k.PY$ Here 'k' means ____
a) Marginal propensity to consume b) proportion of nominal income that people want to hold as cash c) Investment multiplier d) Money multiplier	

17	Keynesian Theory of Demand for Money is also known as ____
a) Equation of exchange b) Liquidity Preference Theory c) Transaction approach d) Classical Approach	

18	Money is demanded to bridge the time gap between receipt of income and planned expenditures. This shows ____
a) Transaction demand for money b) Precautionary demand for money c) Speculative demand for money d) All of the above	

19	A portion of income to finance unanticipated expenses which may occur due to unforeseen contingencies. This shows ____
a) Transaction demand for money b) Precautionary demand for money c) Speculative demand for money d) All of the above	

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20	People demand to hold money balances to take advantage of the future changes in the rate of interest. This shows _____	<ul style="list-style-type: none"> <li>a) Transaction demand for money</li> <li>b) Precautionary demand for money</li> <li>c) Speculative demand for money</li> <li>d) All of the above</li> </ul>
21	Market value of bonds & market rate of interest are _____	<ul style="list-style-type: none"> <li>a) Directly related</li> <li>b) inversely related</li> <li>c) Positively related</li> <li>d) Both a &amp; c</li> </ul>
22	As per speculative motive of holding money, if the wealth-holders consider current interest rate as low, compared to the 'critical rate of interest', then-	<ul style="list-style-type: none"> <li>a) they expect the rate of interest to rise in future</li> <li>b) they expect fall in bond prices</li> <li>c) they would have an incentive to hold their wealth in the form of liquid cash rather than bonds</li> <li>d) All of the above</li> </ul>
23	As per speculative motive of holding money, as long as- <ul style="list-style-type: none"> <li>• current rate of interest is higher than the critical rate of interest, a typical wealth-holder would hold in his asset portfolio _____, &amp;</li> <li>• if the current rate of interest is lower than the critical rate of interest, his asset portfolio would consist _____</li> </ul>	<ul style="list-style-type: none"> <li>a) only government bonds, wholly of cash</li> <li>b) wholly of cash, only government bonds</li> <li>c) Both a &amp; b</li> <li>d) None of the above</li> </ul>
24	_____ is a situation when expansionary monetary policy (increase in money supply) does not increase interest rate, income & hence does not stimulate economic growth.	<ul style="list-style-type: none"> <li>a) Crowding out effect</li> <li>b) Liquidity Trap</li> <li>c) Both a &amp; b</li> <li>d) None of the above</li> </ul>
25	Inventory Theoretic Approach was given by _____	<ul style="list-style-type: none"> <li>a) Alfred Marshall</li> <li>b) Milton Friedman</li> <li>c) Irving Fisher</li> <li>d) Baumol &amp; Tobin</li> </ul>
26	As per Baumol, people hold _____, i.e., an amount that _____ opportunity cost.	<ul style="list-style-type: none"> <li>a) Only cash balance, minimises</li> <li>b) Only bonds, minimises</li> <li>c) optimum combination of bonds and cash balance, minimises</li> <li>d) Only cash balance, increases</li> </ul>
27	As per Milton Friedman, total wealth is _____	<ul style="list-style-type: none"> <li>a) average income on five asset classes - money, bonds, equity, physical capital &amp; human capital</li> <li>b) Permanent Income</li> <li>c) Permanent Income / discount rate</li> <li>d) Money demand</li> </ul>
28	Tobin's theory of 'Demand for Money as Behaviour toward Risk' implies that demand for money depends _____	<ul style="list-style-type: none"> <li>a) Directly on number of transactions</li> <li>b) negatively on the interest rate</li> <li>c) Directly on income</li> <li>d) Directly on price level</li> </ul>

New MCQs by MVSIR

UNIT 2

1 The supply of money is a \_\_\_\_\_ variable, and change in the supply of money is a \_\_\_\_\_ variable.

- a) Flow, stock
- b) Stock, flow
- c) Flow, flow
- d) Stock, stock

2 Money supply is \_\_\_\_\_

- a) stock of money available to the 'public' as a means of payments and store of value
- b) always smaller than the total stock of money that really exists in an economy
- c) Money held by producers of money
- d) Both a & b

3 'Supply of money' excludes-

- a) interbank deposits
- b) money held by government
- c) money held by banking system
- d) All of the above

4 Empirical analysis of money supply is important because-

- a) Facilitates analysis of monetary developments to provide an understanding of causes of money growth.
- b) Provides a framework to evaluate whether stock of money in economy is consistent with-standards for price stability & helps central banks in making monetary policy
- c) Helps in making fiscal policy
- d) Both a & b

5 Sources of money supply are-

- a) High Powered Money
- b) Credit Money
- c) Both a & b
- d) Amount of money people desire to hold with themselves

6 Reserve money determines the level of-

- a) Price Level in the economy
- b) Level of Liquidity & price level in the economy
- c) Level of output
- d) Both b & c

Calculate Reserve Money

Components	(Billions Rs.)
Currency in circulation	15,428.40
Demand Deposit with Banks	3,546.92
Bankers Deposits with RBI	4,596.18
Other Deposits with RBI	183.30

- a) 20,207.88
- b) 23,754.80
- c) 19,158.62
- d) 20,024.58

8 Calculate Currency with Public & Reserve Money respectively-

Components	(Billions Rs.)
Notes in Circulation	25,00,000
Circulation of Rupee Coins	26,000
Circulation of Small Coins	850
Cash on hand with Banks	95,000
Bankers' Deposits with RBI	4,500
Other Deposits with RBI	180

- a) 25,26,850 and 25,31,530
- b) 24,31,850 and 25,31,530
- c) 25,00,000 and 25,04,680
- d) 25,26,000 and 25,03,830

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9 Calculate Narrow Money	
Components	(Billions Rs.)
Currency with the public	15,473.2
Demand deposits of banks	6,943.1
Saving deposits with post office saving bank	978.1
Other deposits of RBI	501.2

a) 23,895.60  
b) 22,917.50  
c) 23,394.40  
d) 16,952.50

10 Calculate M1	
Components	(Billions Rs.)
Currency with public	2,13,279.8
Time deposits with bank	3,45,000.7
Demand deposits with bank	1,62,374.5
Post office savings deposit	382.9
Other deposits of RBI	765.1

a) 3,76,419.40  
b) 7,21,803.00  
c) 7,21,420.10  
d) 5,59,045.60

11 Calculate M1	
Components	(Rs. in cr)
Cash in hands of public	300
Demand Deposits	400
Money Market Mutual Funds	1000
Traveller's checks	50
Small Time Deposits	500
Large Time Deposits	450
Other Checkable Deposits	150

a) 2,850  
b) 700  
c) 900  
d) 750

12 Calculate M2	
Components	(Rs. in cr)
Currency with public	4,35,656.6
Other deposits with RBI	1,234.2
Saving deposits with post office saving banks	647.7
Net time deposits with the banking system	5,14,834.3
Demand deposits with banks.	2,74,254.9

a) 7,11,145.70  
b) 7,11,793.40  
c) 12,26,627.70  
d) 12,25,980.00

13 Calculate M1 & M2 respectively	
Components	(Rs. in cr)
Notes in Circulation	2,42,09,645
Rupee Coin in Circulation	3,25,572
Small Coins in Circulation	7,434
Post Office Saving Bank Deposits	14,17,868
Cash in Hand with banks	9,75,635
Deposit Money of the Public	1,77,61,992
Demand Deposited with banks	1,73,76,925
Other Deposits with Reserve Bank	3,85,074
Total Post Office Deposits	15,48,966
Time Deposits with Banks	17,86,969

a) M1= 4,13,29,015 & M2= 4,27,46,883  
b) M1= 4,27,46,883 & M2= 4,13,29,015  
c) M1= 4,23,04,650 & M2= 4,37,22,518  
d) M1= 4,23,04,650 & M2= 4,52,71,484

14 Which of the following is most liquid ?	
a) M1	
b) M2	
c) M3	
d) M4	



15 Calculate M3	
Components	(Rs. in cr)
Currency with the public	2,25,432.6
Demand Deposits with Banks	3,40,242.4
Time Deposits with Banks	2,80,736.8
Post office savings Deposits (Excluding National Saving Certificates)	446.7
Other Deposits with RBI (Including Government Deposits)	392.7
Post Office National Saving Certificates	83.7
Government Deposits with RBI	102.5

a) 8,46,804.50  
b) 8,46,618.30  
c) 8,46,702.00  
d) 8,46,785.70

16 Calculate M4	
Components	(Rs. in cr)
Currency with the public	1,12,206.6
Demand Deposits with Banks	1,93,300.4
Net Time Deposits with Banks	2,67,310.2
Other Deposits of RBI	614.8
Post Office Savings Deposits	277.5
Post Office National Savings Certificates (NSCs)	110.5

a) 5,73,709.50  
b) 5,73,432.00  
c) 5,73,820.00  
d) 3,06,509.80

17	If required reserve ratio is 25%, then money multiplier will be ?
----	---

a) 0.75  
b) 0.25  
c) 5  
d) 4

18	If a person gets Re 1 she will put Rs _____ in her bank account and keep Rs _____ in cash. (Currency Deposit Ratio = $c$ = ratio of money held by the public in currency to that they hold in bank deposits)
----	---

a)  $c$  ,  $1/c$   
b)  $1/(1+c)$  ,  $c/(1+c)$   
c)  $c/(1+c)$  ,  $1/(1+c)$   
d)  $1/c$  ,  $c$

19	If Required Reserve = Rs 50 cr Total Reserve of Bank = Rs 75 cr Total Deposits with bank = Rs 300 cr Currency held by public = Rs 100 cr Calculate Money multiplier
----	--

a) 2.75  
b) 3.74  
c) 2.29  
d) 3.59

20	If Required Reserve Ratio = 0.25 Excess Reserve Ratio = 0.10 Currency Deposit Ratio = 0.40 Calculate Money multiplier
----	---

a) 1.87  
b) 1.33  
c) 0.75  
d) 0.25

21	Whether money multiplier and credit multiplier are always equal ?
----	---

a) Yes, always equal  
b) No, they are equal only when we assume banks do not hold excess reserves & public does not hold currency and deposit whole money in bank  
c) No, they are never equal  
d) None of the above

22 Credit multiplier =  
 a)  $(1 + c) / (r + e + c)$   
 b)  $1 / r$   
 c)  $(r + e + c) / (1 + c)$   
 d)  $1 / (r + e + c)$

23 As per, Milton Friedman & Anna Schwartz, there are three factors considered as immediate determinants of money supply

- a) Stock of high-powered money  
 b) Reserve-ratio  
 c) Currency Deposit Ratio  
 d) All of the above

24 The value of reserve ratio \_\_\_\_\_

- a) Depends upon Behaviour of Central Bank  
 b) Depends upon Behaviour of Commercial Banks  
 c) Depends upon Behaviour of Public  
 d) None of the above

25 Total supply of money in economy \_\_\_\_\_ with the supply of high-powered money.

- a) Vary inversely  
 b) Vary directly  
 c) Does not relate  
 d) None of the above

26 If required reserve ratio decreases -  
 • banks will \_\_\_\_\_ lending,  
 • causing a \_\_\_\_\_ in deposits  
 • & hence money supply will \_\_\_\_\_

- a) decrease, rise, increase  
 b) Increase, fall, decrease  
 c) Increase, rise, increase  
 d) decrease, fall, decrease

27 Smaller the excess reserve ratio

- a) smaller the money multiplier  
 b) larger the money multiplier  
 c) No change in money multiplier  
 d) None of the above

28 When costs to bank of holding excess reserves (market rate of interest) falls, the level of excess reserves \_\_\_\_\_, hence money multiplier will be \_\_\_\_\_

- a) falls, larger  
 b) Rises, smaller  
 c) falls, smaller  
 d) Rises, larger

29 During festival season, people decide to use ATMs very often. This will \_\_\_\_\_ excess reserve ratio & thus money multiplier will \_\_\_\_\_

- a) increase, fall  
 b) decrease, rise  
 c) increase, rise  
 d) decrease, fall

30 Excess Reserves of banks \_\_\_\_\_

- a) do not lead to additional loans  
 b) do not lead to creation of money  
 c) Lead to increase in money multiplier  
 d) Both a & b

31 If public decides to keep more money in their pocket and less money in bank. It leads to an \_\_\_\_\_ in currency ratio & \_\_\_\_\_ in money multiplier

- a) Increase, rise  
 b) Increase, fall  
 c) decrease, rise  
 d) decrease, fall

32 Fearing shortage of money in ATMs, people decide to hoard money. This will lead to \_\_\_\_\_

- a) Decrease in currency ratio & decrease in money multiplier  
 b) decrease in currency ratio & increase in money multiplier  
 c) Increase in currency ratio & decrease in money multiplier  
 d) Increase in currency ratio & increase in money multiplier

33 \_\_\_\_\_ represents degree of adoption of banking habits by people

a) Required reserve ratio  
b) Excess reserve ratio  
c) Currency deposit ratio  
d) Time deposit-demand deposit ratio

34 \_\_\_\_\_ represents degree of adoption of banking habits by people

a) Required reserve ratio  
b) Excess reserve ratio  
c) Currency deposit ratio  
d) Time deposit-demand deposit ratio

34 Banks open large number ATMs all over the country. This will lead to \_\_\_\_\_

a) Decrease in currency ratio & decrease in money multiplier  
b) decrease in currency ratio & increase in money multiplier  
c) Increase in currency ratio & decrease in money multiplier  
d) Increase in currency ratio & increase in money multiplier

35 E-banking becomes very common and nearly all people use them. This will lead to \_\_\_\_\_

a) Decrease in currency ratio & decrease in money multiplier  
b) Increase in currency ratio & decrease in money multiplier  
c) decrease in currency ratio & increase in money multiplier  
d) Increase in currency ratio & increase in money multiplier

36 An increase in time deposit-demand deposit ratio means that \_\_\_\_\_ availability of free reserves which leads to \_\_\_\_\_ in volume of multiple deposit expansion & thus, \_\_\_\_\_ multiplier

a) Greater, increase, high  
b) Smaller, increase, high  
c) Smaller, decrease, low  
d) Greater, increase, low

37 When interest rates are too low & banks prefer to hold all deposits as excess reserves with no risk attached to it, then Money multiplier will be \_\_\_\_\_

a) Very high  
b) Infinite  
c) Zero  
d) More than 1

38 If Commercial Banks do not keep reserves, then what will happen ?

a) Money multiplier will be zero & money supply will be infinite  
b) Money multiplier will be zero & money supply will not change  
c) Money multiplier will be infinite & money supply will be infinite  
d) Money multiplier will be infinite & money supply will not change

39 If Commercial Banks keep 100% reserves, then what will happen ?

a) Money multiplier will be 1 & no new money will be created  
b) Money multiplier will be zero & no new money will be created  
c) Money multiplier will be infinite & no new money will be created  
d) Money multiplier will be infinite & money supply will be infinite

40 Calculate Money Multiplier, if:  
Reserve Ratio (r) = 10%  
Currency = Rs 200 billion  
Deposits = Rs 400 billion  
Excess Reserve = Rs 800 million

a) 2.765  
b) 3.492  
c) 2.492  
d) 3.765

41 What will be the total credit created by the commercial banking system for an initial deposit of Rs 1000. If the required reserve ratio 20%

a) Credit Creation = Rs 4,000  
b) Credit Creation = Rs 5,000  
c) Credit Creation = Rs 10,000  
d) Credit Creation = Rs 2,000

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New MCQs by MVSIR

UNIT 3

1 When RBI lower interest rates, monetary policy is \_\_\_\_\_

- a) tightening
- b) Easing
- c) Both a & b
- d) None of the above

2 Monetary policy framework has some basic components-

- a) objectives of monetary policy,
- b) analytics of monetary policy which focus on transmission mechanisms,
- c) operating procedure which focuses on operating targets & instruments
- d) All of the above

3 The primary objective of monetary policy is \_\_\_\_\_

- a) price stability
- b) economic growth
- c) Both a & b
- d) None of the above

4 Objectives of Monetary Policy in case of developing countries are

- a) maintenance of economic growth and ensuring an adequate flow of credit to productive sectors
- b) sustaining a moderate structure of interest rates to encourage investments,
- c) creation of an efficient market for government securities.
- d) All of the above

5 Transmission of monetary policy describes-

- a) how an increase in the monetary base causes the money supply to increase by a multiplied amount
- b) how changes made by RBI to its monetary policy settings flow through to economic activity and inflation
- c) Both a & b
- d) None of the above

6 A reduction in lending rates reduces interest repayments on debt, increasing the amount available with households and businesses to spend on goods & services. This is an example of \_\_\_\_\_

- a) Saving and Investment Channel
- b) Cash-flow Channel
- c) Asset Prices and Wealth Channel
- d) Exchange Rate Channel

7 As per Saving and Investment Channel, lower interest rates for loans can \_\_\_\_\_ households to borrow \_\_\_\_\_ as they face \_\_\_\_\_ repayments.

- a) discourage, more, lower
- b) Encourage, less, more
- c) Encourage, less, lower
- d) Encourage, more, lower

8 Reduction in interest rates \_\_\_\_\_ the amount of income that households and businesses get from deposits, and thus \_\_\_\_\_ their spending

- a) Reduces, increase
- b) Reduces, restrict
- c) Increases, restrict
- d) Increases, increase

9 As per Asset Price & Wealth Channel, higher asset prices \_\_\_\_\_ the equity (collateral) of an asset that is available for banks to lend against. This can make it \_\_\_\_\_ for households and businesses to borrow

a) Increase, easier  
b) Decrease, easier  
c) Increase, difficult  
d) None of the above

10 As per Asset Price & Wealth Channel, an increase in asset prices \_\_\_\_\_ people's wealth. This can lead to \_\_\_\_\_ consumption and housing investment as households generally spend some share of any increase in their wealth

a) Decrease, lower  
b) Increase, higher  
c) Decrease, higher  
d) Increase, lower

11 As per Exchange Rate Channel, a reduction in interest rates in India (compared with rest of world) results in a \_\_\_\_\_ exchange rate, making foreign goods more \_\_\_\_\_ compared with those produced in India

a) Lower, expensive  
b) higher, cheaper  
c) higher, expensive  
d) Lower, cheaper

12 As per Exchange Rate Channel, Lower interest rates \_\_\_\_\_ returns investors earn from assets in India, thus leading to \_\_\_\_\_ demand for assets in India (also for Indian rupees) with investors shifting their funds to foreign assets (and currencies) instead.

a) increase, reduced  
b) reduce, reduced  
c) increase, increased  
d) reduce, increased

13 Banks are required to keep a portion of its net demand & time liabilities in cash with RBI

a) Marginal Standing Facility  
b) Excess Reserve Ratio  
c) Cash Reserve Ratio  
d) Statutory Liquid Ratio

14 Does RBI need to pay interest on CRR amount?

a) Yes  
b) No  
c) Sometimes  
d) More than repo rate

15 Banks are required to set aside a portion of its net demand & time liabilities, in form of liquid assets such as cash, gold or RBI approved securities.

a) Marginal Standing Facility  
b) Excess Reserve Ratio  
c) Cash Reserve Ratio  
d) Statutory Liquid Ratio

16 When the RBI sells government securities, the liquidity is \_\_\_\_\_ from the market leading to \_\_\_\_\_ in money supply

a) Injected, increase  
b) Injected, decrease  
c) sucked, increase  
d) sucked, decrease

17 When there is high inflation in the country, then RBI would \_\_\_\_\_ to achieve price stabilize

a) Buy government securities  
b) Sell government securities  
c) Both a or b  
d) None of the above

18 The monetary policy tools that impact money supply in the entire economy are called \_\_\_\_\_

a) Qualitative tools  
b) Selective Credit Control tools  
c) Quantitative tools  
d) Both a & b

19	_____ are tools that have an effect in the money supply of a specific sector of the economy	24	_____ is the rate at which banks borrow from RBI on a short-term basis against a repurchase agreement
<p>a) Qualitative tools b) Selective Credit Control tools c) Quantitative tools d) Both a &amp; b</p>		<p>a) Repo Rate b) Reverse-Repo Rate c) MSF Rate d) Bank Rate</p>	
20	Which of the following is not an quantitative tool of monetary policy	25	Which of the following is correct
<p>a) Cash Reserve Ratio b) Statutory Liquidity Ratio c) Repo Rate d) Moral Suasion</p>		<p>a) Reverse Repo Rate = Repo Rate - 1 b) Reverse Repo Rate = Repo Rate + 1 c) Repo Rate = Reverse Repo Rate - 1 d) Repo Rate = Reverse Repo Rate + 1</p>	
21	RBI convinces banks to keep money in government securities, rather than certain sectors. This is an example of _____	26	The penal rate at which the Central Bank lends money to banks, over and above what is available to them through LAF window, by dipping into their SLR portfolio upto a limit
<p>a) Cash Reserve Ratio b) Statutory Liquidity Ratio c) Margin Requirement d) Moral Suasion</p>		<p>a) Repo Rate b) Reverse-Repo Rate c) MSF Rate d) Bank Rate</p>	
22	Under _____ the Government of India borrows from the RBI (such borrowing being additional to its normal borrowing requirements) and issues treasury-bills/dated securities.	27	Banks availing MSF Rate can use a maximum of _____ of SLR securities
<p>a) Cash Reserve Ratio b) Statutory Liquidity Ratio c) Market Stabilisation Scheme d) Marginal Standing Facility</p>		<p>a) 1% b) 5% c) 10% d) 50%</p>	
23	The interest rate at which RBI lends long term funds to banks is referred to as the bank rate	28	Which of following is correct
<p>a) Repo Rate b) Reverse-Repo Rate c) MSF Rate d) Bank Rate</p>		<p>a) MSF Rate = Repo Rate - 1 b) MSF Rate = Repo Rate + 1 c) MSF Rate = Repo Rate - 1 d) Repo Rate = MSF Rate + 1</p>	
29	Inflation target is set by Govt. of India, in consultation with RBI, once in every _____ years	29	Inflation target is set by Govt. of India, in consultation with RBI, once in every _____ years
		<p>a) 3 b) 5 c) 7 d) 10</p>	

30 The following factors are notified by central govt. as constituting a failure to achieve the inflation target

a) Average inflation is more than upper tolerance level of inflation target for any 3 consecutive quarters  
 b) Average inflation is less than lower tolerance level for any three consecutive quarters  
 c) Both a or b  
 d) Average inflation is more/less than lower tolerance level for any five consecutive quarters

31 RBI increases repo rate by 50 basis points. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
 b) Contractionary fiscal policy  
 c) Expansionary fiscal policy  
 d) Expansionary monetary policy

32 RBI reduces cash reserve ratio. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
 b) Contractionary fiscal policy  
 c) Expansionary fiscal policy  
 d) Expansionary monetary policy

33 RBI increases the supply of currency and coins. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
 b) Contractionary fiscal policy  
 c) Expansionary fiscal policy  
 d) Expansionary monetary policy

34 RBI terminates marginal standing facility. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
 b) Contractionary fiscal policy  
 c) Expansionary fiscal policy  
 d) Expansionary monetary policy

35 RBI increases the interest rates chargeable by commercial banks. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
 b) Contractionary fiscal policy  
 c) Expansionary fiscal policy  
 d) Expansionary monetary policy

36 RBI sells securities in the open market. What is the nature of policy undertaken by RBI?

a) Contractionary monetary policy  
 b) Contractionary fiscal policy  
 c) Expansionary fiscal policy  
 d) Expansionary monetary policy

37 \_\_\_\_\_ are conducted by the RBI by way of sale or purchase of government securities to adjust money supply conditions

a) Re-discounting of bills  
 b) Liquidity Adjustment Facility  
 c) Open Market Operations  
 d) Marginal Standing Facility

38 The current Repo Rate is 6%. The difference between repo and reverse repo shall be 180 basis points. RBI decreases repo by 50 basis points. What is the new Reverse Repo Rate?

a) 7.80%  
 b) 8.30%  
 c) 3.70%  
 d) 7.30%



ANSWER KEY – Chapter 8 – New MCQs by MVSIR

Unit 1

1	B	6	A	11	C	16	B	21	B	26	C
2	B	7	B	12	C	17	B	22	D	27	C
3	C	8	C	13	C	18	A	23	A	28	B
4	D	9	B	14	D	19	B	24	B		
5	C	10	B	15	D	20	C	25	D		

Unit 2

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

Unit 3

1	B	6	B	11	A	16	D	21	D	26	C	31	A	36	A
2	D	7	D	12	B	17	B	22	C	27	A	32	D	37	C
3	C	8	B	13	C	18	C	23	D	28	B	33	D	38	C
4	D	9	A	14	B	19	D	24	A	29	B	34	A		
5	B	10	B	15	D	20	D	25	A	30	C	35	A		

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CA Foundation – New Syllabus  
Business Economics

Chapter 8  
**MONEY MARKET**

**ICAI Extra MCQs**

MCQ Compiler by MVSIR

ICAI Extra MCQs

<b>1</b>	<b>Bank earn a profit on the difference between:</b>
	<ul style="list-style-type: none"> <li>a) Interest charged to depositors and interest offered to borrowers</li> <li>b) Interest charged on loans and interest paid on deposits</li> <li>c) Deposit and loan balances</li> <li>d) Liabilities and deposits</li> </ul>
<b>2</b>	<b>Broad money refers to:</b>
	<ul style="list-style-type: none"> <li>a) M1</li> <li>b) M2</li> <li>c) M3</li> <li>d) M4</li> </ul>
<b>3</b>	<b>The effect of increase CRR will be reduced or nullified if:</b>
	<ul style="list-style-type: none"> <li>a) Bank rate is reduced.</li> <li>b) Securities are sold in the open market.</li> <li>c) SLR is increased.</li> <li>d) People do not borrow from non-banking institutions.</li> </ul>
<b>4</b>	<b>Open Market operation imply:</b>
	<ul style="list-style-type: none"> <li>a) Buying and selling securities by RBI</li> <li>b) Buying and selling securities by commercial banks</li> <li>c) Buying and selling securities by investors</li> <li>d) Buying and selling securities by government</li> </ul>
<b>5</b>	<b>SLR should be maintained in:</b>
	<ul style="list-style-type: none"> <li>a) Bonds</li> <li>b) Equity</li> <li>c) Gold</li> <li>d) Cash</li> </ul>

<b>6</b>	<b>During depression, it is advisable to:</b>
	<ul style="list-style-type: none"> <li>a) Lower Bank Rate and purchase securities in the market.</li> <li>b) Increase Bank Rate and purchase securities in the open market.</li> <li>c) Decrease Bank Rate and sell securities in the open market.</li> <li>d) Increase Bank Rate and sell securities in the open market.</li> </ul>
<b>7</b>	<b>Reserve money is supplied by:</b>
	<ul style="list-style-type: none"> <li>a) RBI</li> <li>b) Government</li> <li>c) Commercial banks</li> <li>d) World bank</li> </ul>
<b>8</b>	<b>The Repo rate is:</b>
	<ul style="list-style-type: none"> <li>a) An emergency window for a banks</li> <li>b) Commercial banks lend money to RBI</li> <li>c) Commercial banks rediscount the bills of exchange with RBI</li> <li>d) RBI lends money to commercial banks</li> </ul>
<b>9</b>	<b>Reverse repo rate is:</b>
	<ul style="list-style-type: none"> <li>a) Equal to CRR</li> <li>b) Equal to Bank rate</li> <li>c) Equal to MSF</li> <li>d) Lower a than Repo rate</li> </ul>
<b>10</b>	<b>To influence spending the monetary policy is directed at directly influencing in the short run:</b>
	<ul style="list-style-type: none"> <li>a) Interest Rate</li> <li>b) Unemployment</li> <li>c) Inflation Rate</li> <li>d) Growth Rate</li> </ul>
<b>11</b>	<b>The targeted inflation rate for RBI</b>
	<ul style="list-style-type: none"> <li>a) 4%</li> <li>b) 2%</li> <li>c) 6%</li> <li>d) 5%</li> </ul>

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12 MPC comprises \_\_\_\_\_ Member:

- a) 3
- b) 5
- c) 6
- d) 4

13 Bank rate is the rate at which:

- a) Commercial banks lend to RBI
- b) RBI lends to commercial banks
- c) RBI lends to government
- d) RBI lends to foreign banks

14 Which of the following monetary instruments are indirect instruments of Monetary Policy?

- a) Cash Reserve Ratio
- b) Open Market Operation
- c) Repo Rate
- d) Both B & C

15 Mr. A, who is self-employed decided to keep more money in his savings account, considering the prevailing economic & political conditions. What is the motive for such a move by A?

- a) Transaction Motive
- b) Speculative Motive
- c) Precautionary Motive
- d) Conservative Motive

16 Banks perform the function of

- a) Receiving deposits.
- b) Lending of money.
- c) Agency services.
- d) All of the above.

17 Motives for holding money by people as per Keynes:

- a) Transaction motive
- b) Precautionary motive
- c) Speculative motive
- d) All of the above

18 Which measure of Money Supply is known as the aggregate monetary resources?

- a) M1
- b) M2
- c) M3
- d) M4

19 Among the following identified by Friedman, which one is not one of the four determinants of demand for money?

- a) Average return on five asset classes
- b) Price level in the economy
- c) Inflation Rate
- d) Forex Trade

20 Narrow money refers to:

- a) M1
- b) M2
- c) M3
- d) M4

21 What will be the value of credit multiplier when the Required Reserve ratio is 50%?

- a) 4
- b) 2
- c) 3
- d) 1

22 Risk aversion theory is based on:

- a) Interest rate theory
- b) Behavioural theory
- c) Principles of portfolio management
- d) None of the above

23 If a bank has deposits of Rs 50,00,000 & reserve requirement of 10%. But the bank has total reserves of Rs 12,00,000 what is its excess reserves?

- a) Rs 12,00,000
- b) Rs 17,00,000
- c) Rs 7,00,000
- d) Rs 62,00,000

24 When the central bank conducts open market operations to purchase government securities, what happens to the monetary base and the money supply?

- a) Monetary base increases, money supply increases
- b) Monetary base increases, money supply decreases
- c) Monetary base decreases, money supply increases
- d) Monetary base decreases, money supply decreases

25 \_\_\_\_\_ is used only for calculating penalty on default in the maintenance of CRR & SLR

- a) Repo Rate
- b) Reverse-Repo Rate
- c) MSF Rate
- d) Bank Rate

26 Empirical evidence of liquidity trap is found during :

- a) COVID-19
- b) Great recession
- c) Global Financial crisis
- d) None of the above

27 Which of the following is true with regards to Liquidity Trap?

- a) Speculative Demand is parallel to X-Axis
- b) Desire to hold bond is infinity
- c) Ineffective Monetary policy
- d) Both a & c

28 According to whom, rational behaviour induces individuals to hold an optimally structured wealth portfolio which is comprised of both bonds and money

- a) Tobin
- b) Baumol
- c) Keynes
- d) Alfred Marshall

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ANSWER KEY - Chapter 8 - ICAI Extra MCQs

1	B	6	A	11	A	16	D	21	B	26	C
2	C	7	A	12	C	17	D	22	C	27	D
3	A	8	D	13	B	18	C	23	C	28	A
4	A	9	D	14	D	19	D	24	A		
5	A	10	A	15	C	20	A	25	D		

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Business Economics

Chapter 8  
**MONEY MARKET**

ICAI SM MCQs

MCQ Compiler by MVSIR

**UNIT 1**

ICAI SM

**1 Choose the incorrect statement**

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

ICAI SM

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

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

ICAI SM

**3 Demand for money is**

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

ICAI SM

**4 Higher the \_\_\_\_\_, higher would be \_\_\_\_\_ of holding cash and lower will be the \_\_\_\_\_**

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

ICAI SM

**5 The quantity theory of money holds that**

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

ICAI SM

**6 The Cambridge approach to quantity theory is also known as**

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

ICAI SM	
7	<b>Fisher's approach and the Cambridge approach to demand for money consider</b>
a) money's role in acting as a store of value and therefore, demand for money is for storing value temporarily. b) money as a means of exchange and therefore demand for money is termed as for liquidity preference c) money as a means of transactions and therefore, demand for money is only transaction demand for money. d) None of the above	

ICAI SM	
8	<b>Real money is</b>
a) nominal money adjusted to the price level b) real national income c) money demanded at given rate of interest d) nominal GNP divided by price level	

ICAI SM	
9	<b>The precautionary money balances people want to hold</b>
a) as income elastic and not very sensitive to rate of interest b) as income inelastic and very sensitive to rate of interest c) are determined primarily by the level of transactions they expect to make in the future. d) are determined primarily by the current level of transactions	

ICAI SM	
10	<b>Speculative demand for money</b>
a) is not determined by interest rates b) is positively related to interest rates c) is negatively related to interest rates d) is determined by general price level	

ICAI SM	
11	<b>According to Keynes, if the current interest rate is high</b>
a) people will demand more money because the capital gain on bonds would be less than return on money b) people will expect the interest rate to rise and bond price to fall in the future. c) people will expect the interest rate to fall and bond price to rise in the future. d) Either a) or b) will happen	

ICAI SM	
12	<b>The inventory-theoretic approach to the transactions demand for money</b>
a) explains the negative relationship between money demand and the interest rate. b) explains the positive relationship between money demand and the interest rate. c) explains the positive relationship between money demand and general price level d) explains the nature of expectations of people with respect to interest rates and bond prices	



ICAI SM	
13	According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:
a) a positive function of income $Y$ and the price level $P$ b) a positive function of transactions costs $c$ , c) a negative function of the nominal interest rate $i$ d) All the above	

ICAI SM	
14	_____ considered demand for money is as an application of a more general theory of demand for capital assets
a) Baumol b) James Tobin c) J M Keynes d) Milton Friedman	

ICAI SM	
15	The nominal demand for money rises if
a) the opportunity costs of money holdings - i.e. bonds and stock returns, $r_B$ and $r_E$ , respectively - decline and vice versa b) the opportunity costs of money holdings - i.e. bonds and stock returns, $r_B$ and $r_E$ , respectively - rises and vice versa c) the opportunity costs of money holdings - i.e. bonds and stock returns, $r_B$ and $r_E$ , respectively remain constant d) b) and c) above	

Answer Key - Chapter 8 ICAI SM MCQs (Unit - 1)

1	A	4	D	7	C	10	C	13	D
2	C	5	D	8	A	11	C	14	D
3	A	6	A	9	A	12	A	15	A

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**UNIT 2**

**Basic**

ICAI SM

**1 Reserve money is also known as**

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

ICAI SM

**2 Choose the correct statement from the following**

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

ICAI SM

**3 Reserve Money is composed of**

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

ICAI SM

**4 M1 is the sum of**

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

ICAI SM

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

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

ICAI SM

**6 The primary source of money supply in all countries is**

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

ICAI SM	
7	The supply of money in an economy depends on
<p>a) the decision of the central bank based on the authority conferred on it.</p> <p>b) the decision of the central bank and the supply responses of the commercial banking system.</p> <p>c) the decision of the central bank in respect of high powered money.</p> <p>d) both a) and c) above.</p>	

ICAI SM	
9	If the behaviour of the public and the commercial banks is constant, then
<p>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</p> <p>b) the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money</p> <p>c) the total supply of nominal money in the economy will vary inversely with the supply of high powered money</p> <p>d) all the above are possible</p>	

ICAI SM	
8	Banks in the country are required to maintain deposits with the central bank
<p>a) to provide the necessary reserves for the functioning of the central bank</p> <p>b) to meet the demand for money by the banking system</p> <p>c) to meet the central bank prescribed reserve requirements and to meet settlement obligations.</p> <p>d) to meet the money needs for the day to day working of the commercial banks</p>	

ICAI SM	
10	Under the fractional reserve system
<p>a) the money supply is an increasing function of reserve money (or high powered money) and the money multiplier.</p> <p>b) the money supply is an decreasing function of reserve money (or high powered money) and the money multiplier.</p> <p>c) the money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier.</p> <p>d) none of the above as the determinants of money supply are different</p>	

ICAI SM	
11	The money multiplier and the money supply are
a) positively related to the excess reserves ratio e. b) negatively related to the excess reserves ratio e. c) not related to the excess reserves ratio e. d) proportional to the excess reserves ratio e.	

ICAI SM	
12	The currency ratio represents
a) the behaviour of central bank in the issue of currency. b) the behaviour of central bank in respect cash reserve ratio. c) the behaviour of the public. d) the behaviour of commercial banks in the country.	

ICAI SM	
13	The size of the money multiplier is determined by
a) the currency ratio (c) of the public, b) the required reserve ratio (r) at the central bank, and c) the excess reserve ratio (e) of commercial banks. d) all the above	

ICAI SM	
14	_____ tells us how much new money will be created by the banking system for a given increase in the high-powered money.
a) The currency ratio b) The excess reserve ratio (e) c) The credit multiplier d) The currency ratio (c)	

ICAI SM	
15	The money multiplier will be large
a) for higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e) b) for constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e) c) for lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e) d) None of the above	

ICAI SM	
16	The ratio that relates the change in the money supply to a given change in the monetary base is called the
a) required reserve ratio. b) money multiplier. c) deposit ratio. d) discount rate.	

ICAI SM	
17	For a given level of the monetary base, an increase in the required reserve ratio will denote
a) a decrease in the money supply. b) an increase in the money supply. c) an increase in demand deposits. d) Nothing precise can be said	

ICAI SM	
18	For a given level of the monetary base, an increase in the currency ratio causes the money multiplier to _ and the money supply to _____.
a) decrease; increase b) increase; decrease c) decrease; decrease d) increase; increase	

ICAI SM	
19	If commercial banks reduce their holdings of excess reserves
a) the monetary base increases. b) the monetary base falls. c) the money supply increases. d) the money supply falls.	

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**Answer Key –Chapter 8 ICAI SM MCQs (Unit – 2)**

1	D	4	A	7	B	10	A	13	D	16	B
2	C	5	B	8	C	11	B	14	C	17	A
3	B	6	B	9	A	12	C	15	C	18	C
										19	C

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**UNIT 3**

ICAI SM

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

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

ICAI SM

2 The main objective of monetary policy in India is \_\_\_\_\_:

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

ICAI SM

3 The monetary transmission mechanism refers to

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

ICAI SM

4 A contractionary monetary policy-induced increase in interest rates

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

ICAI SM

5 During deflation

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

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

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

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

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

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

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

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


ICAI SM	
13	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	

Answer Key – Chapter 8 ICAI SM MCQs (Unit – 3)

1	D	4	B	7	C	10	A	13	B
2	B	5	A	8	D	11	B		
3	C	6	B	9	C	12	C		

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CA Foundation – New Syllabus  
Business Economics

Chapter 8  
**MONEY MARKET**

**MTP MCQs by MVSIR**

MCQ Compiler by MVSIR

MTP MCQs

MTP Apr 24

1 If the central bank conducts an open market purchase of government securities, what is the likely impact on the money supply?

- a) Increase
- b) Decrease
- c) No change
- d) Variable, pending on other factors.

MTP Apr 24

2 Which of the following is included in compared in M2, a broader measure of money supply compared to M1?

- a) Currency in circulation
- b) Savings deposits
- c) Demand deposits
- d) Travellers' checks

MTP Apr 24

3 Which of the following policy measures is typically used by central banks to manage the business cycle?

- a) Fiscal policy.
- b) Monetary policy.
- c) Trade policy.
- d) Industrial policy.

MTP Apr 24

4 A central bank that wants to stabilize the economy in the short run should try to:

- a) establish a clear inflation target and stick to it no matter what
- b) affect aggregate supply through open market operations
- c) affect aggregate demand through open market operations
- d) concentrate only on long-run goals

MTP Apr 24

5 What is the "liquidity trap" in Keynesian theory?

- a) A situation where interest rates are very high.
- b) A situation of hyperinflation
- c) A situation where interest rates are very low, and savings are hoarded.
- d) A situation of excessive government spending.

MTP Apr 24

6 If the reserve requirement is 20%, what is the potential maximum of the money supply when a new deposit of \$1,000 is made?

- a) \$5,000
- b) \$2,000
- c) \$1,000
- d) \$500

Answer Key - Chapter 8 - MTP MCQs

1	A	4	C
2	B	5	B
3	B	6	A



CA Foundation – New Syllabus  
Business Economics

Chapter 9  
**INTERNATIONAL TRADE**

**New MCQs by MVSIR**

MCQ Compiler by MVSIR

**New MCQs by MVSIR**

**UNIT 1**

1 \_\_\_\_\_ is the exchange of goods and services as well as resources between countries and involves transactions between residents of different countries.

- a) Domestic Trade
- b) Regional Trade
- c) International Trade
- d) All of the above

2 Which of the following is an argument against international trade ?

- a) Facilitates economic efficiency & contributes to economic growth and rising incomes.
- b) Exports stimulate economic growth by creating jobs
- c) Reduction in domestic monopoly
- d) Usage of labor-saving technologies will decrease demand for unskilled workers

2 Which of the following is an argument in support of international trade ?

- a) Domestic companies get outperformed by financially stronger transnational companies.
- b) Excessive stress on exports and profit-driven exhaustion of natural resources due to unsustainable production and consumption leads to environmental damage.
- c) Trade strengthens bonds between nations, thus promotes harmony and cooperation
- d) Trade may breed rivalry among countries on account of severe competition

4 In which theory of international trade is based on maximizing exports to bring in more "specie" (precious metals) and minimizing imports through the state imposing very high tariffs on foreign goods?

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Advantage
- d) Heckscher-Ohlin Theory of Trade

5 In which theory, international trade is a 'zero-sum game', with winners who win, does so only at the expense of losers and one country's gain is equal to another country's loss?

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Adv.
- d) Heckscher-Ohlin Theory of Trade

6 Which theory of international trade is given by Adam Smith?

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Adv.
- d) Heckscher-Ohlin Theory of Trade

7 In which theory of international trade, exchange of goods between two countries will take place only if each of two countries can produce one commodity at an absolutely lower production cost than the other country

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Adv.
- d) Heckscher-Ohlin Theory of Trade

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8 As per which theory, mutually gainful trade is not possible

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Adv.
- d) Heckscher-Ohlin Theory of Trade

The table below shows number of labour hours required to produce wheat and cloth in two countries X and Y

Commodity	Country X	Country Y
1 unit of cloth	4	1.0
1 unit of wheat	2	2.5

Answer the following MCQs 9 to 12 using above table-

9 What is productivity of labour of country X in producing cloth

- a) 4.00
- b) 0.40
- c) 0.50
- d) 0.25

10 What is productivity of labour of country Y in producing wheat

- a) 1.00
- b) 2.50
- c) 0.40
- d) 0.50

11 Which country has absolute advantage in the production of wheat?

- a) Country X
- b) Country Y
- c) Both X & Y
- d) None of the above

12 Which country shall specialize in production of cloth & export it?

- a) Country X
- b) Country Y
- c) Both X & Y
- d) None of the above

The table below shows the output of Wheat and Rice by using one hour of labour time in country A and country B -

Goods	Country A	Country B
Wheat (Quintal /hour)	10	5
Rice (Quintal/hour)	5	10

Answer the following MCQs 13 & 14 using above table-

13 What is productivity of labour of country B in producing rice

- a) 10.00
- b) 0.10
- c) 0.20
- d) 5.00

14 Which country has an absolute advantage over other country in production of wheat?

- a) Country A
- b) Country B
- c) Both A & B
- d) None of the above

Countries Rose Land and Daisy land have a total of 4000 hours each of labour available each day to produce shirts and trousers. Both countries use equal number of hours on each good each day. Rose Land produces 800 shirts and 500 trousers per day. Daisy land produces 500 shirts and 250 trousers per day.

Answer the following MCQs 15 to 17 using above table.

15 Which country has absolute advantage in producing shirts ?

- a) Rose Land
- b) Daisy Land
- c) Both Rose Land & Daisy Land
- d) None of the above

16 Which country has absolute advantage in producing trousers

- a) Rose Land
- b) Daisy Land
- c) Both Rose Land & Daisy Land
- d) None of the above

17 As per theory of comparative advantage, daisy land should specialize in production and export which good ?

- a) Trousers
- b) Shirts
- c) Both shirts & trousers
- d) None of the above

Countries China & India have a total of 6000 hours each of labour available each day to produce shirts and trousers. Both countries use equal number of hours on each good each day. China produces 1000 shirts and 300 trousers per day. India produces 300 shirts and 200 trousers per day. Answer the following MCQs 18 & 19 using above table.

18 Which country has comparative advantage in producing Shirts?

- a) India
- b) China
- c) Both India & China
- d) None of the above

19 What is opportunity cost of shirts in terms of wheat in India?

- a) 0.30
- b) 3.33
- c) 0.67
- d) 1.50

20 A country tends to specialize in the export of a commodity whose production requires intensive use of its abundant resources

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Adv.
- d) Heckscher-Ohlin Theory of Trade

21 'Factor endowment' refers to \_\_\_\_\_ in a country

- a) the overall availability of usable resources
- b) the overall level of production
- c) Absolute advantage
- d) Comparative advantage

22 As per Heckscher-Ohlin Theory of Trade, which country shall produce and export capital-intensive goods?

- a) Labour abundant country
- b) Capital abundant country
- c) Both a & b
- d) None of the above

23 Who gave the theory of comparative advantage?

- a) Adam Smith
- b) Haberler
- c) Paul Krugman
- d) David Ricardo

24 Which of the following is a two-factor model ?

- a) Mercantilists' View of International Trade
- b) Theory of Absolute Advantage
- c) Theory of Comparative Advantage
- d) Heckscher-Ohlin Theory of Trade

**25** Which theory considers labour as sole factor of production?

a) Modern Theory of Trade  
b) Theory of Absolute Advantage  
c) Theory of Comparative Advantage  
d) Both b & c

**26** Which theory is based on labour theory of value

a) Mercantilists' View of International Trade  
b) New Trade Theory  
c) Theory of Comparative Adv.  
d) Heckscher-Ohlin Theory of Trade

**27** Who gave the new trade theory?

a) Adam Smith  
b) Haberler  
c) Paul Krugman  
d) David Ricardo

**28** According to NTT, two key concepts give advantages to countries that import goods to compete with products from the home country

a) Economies of Scale  
b) Network Effects  
c) Lower opportunity cost  
d) Both a & b

**29** \_\_\_\_\_ refer to the way one person's value for a good or service is affected by its value to others. The value is enhanced as number of individuals using it increases

a) Economies of Scale  
b) Network Effects  
c) Lower opportunity cost  
d) Both a & b

**30** Who wrote "In Praise of Cheap Labor" in 1997?

a) Adam Smith  
b) Haberler  
c) Paul Krugman  
d) David Ricardo

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**ANSWER KEY – Chapter 9 - New MCQs by MVSIR (Unit 1)**

1	C	6	B	11	A	16	A	21	A	26	C
2	D	7	B	12	B	17	B	22	B	27	C
3	C	8	A	13	A	18	B	23	D	28	D
4	A	9	D	14	A	19	C	24	D	29	B
5	A	10	C	15	A	20	D	25	D	30	C

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New MCQs by MVSIR

UNIT 2

1 \_\_\_\_\_ refers to opening up of domestic markets to goods and services from the rest of the world by bringing down trade barriers

- a) Protectionism
- b) International Trade
- c) Trade Liberalisation
- d) Free Trade

2 \_\_\_\_\_ is a state policy aimed to protect domestic producers against foreign competition through the use of tariffs, quotas and non-tariff trade policy instruments

- a) Protectionism
- b) International Trade
- c) Trade Liberalisation
- d) Free Trade

3 Under \_\_\_\_\_ buyers and sellers from separate economies voluntarily trade with minimum of state interference

- a) Protectionism
- b) International Trade
- c) Trade Liberalisation
- d) Free Trade

4 \_\_\_\_\_ encompasses all instruments that governments may use to promote or restrict imports and exports

- a) Protectionism
- b) Trade Policy
- c) Trade Liberalisation
- d) Free Trade

5 \_\_\_\_\_ is defined as financial charge in the form of a tax, imposed at the border on goods going from one country to another. They are most visible and universally used trade measures

- a) Embargo
- b) Voluntary Export Restraint
- c) International Tax
- d) Tariffs

6 \_\_\_\_\_ is a fixed amount of money per physical unit or according to the weight or measurement of the commodity imported or exported

- a) Ad Valorem Tariff
- b) Compound Tariff
- c) Mixed Tariff
- d) Specific Tariff

7 \_\_\_\_\_ is a tariff where duty is levied as fixed percentage of value of traded commodity.

- a) Ad Valorem Tariff
- b) Compound Tariff
- c) Mixed Tariff
- d) Specific Tariff

8 \_\_\_\_\_ is calculated by adding up a specific duty to an ad valorem duty.

- a) Technical Tariff
- b) Compound Tariff
- c) Mixed Tariff
- d) Specific Tariff

9 Calculate compound tariff if-  
Specific Tariff (ts)= Rs 100/unit  
Qty imported= 4,500 units  
Price = Rs 50/unit  
Ad valorem tariff= 6%

- a) Rs 4,650
- b) Rs 4,50,000
- c) Rs 4,63,500
- d) Rs 27,000



10 \_\_\_\_\_ is calculated on the basis of the specific contents of the imported goods i.e. duties are payable by its components or related items

a) Variable Tariff  
b) Technical Tariff  
c) Escalated Tariff  
d) Preferential Tariff

11 \_\_\_\_\_ is a duty typically fixed to bring the price of an imported commodity up to level of the domestic support price for the commodity

a) Variable Tariff  
b) Bound Tariff  
c) MFN Tariff  
d) Preferential Tariff

12 \_\_\_\_\_ is a tariff It is set so high that no imports can enter

a) Countervailing duties  
b) Bound Tariff  
c) Prohibitive Tariff  
d) Preferential Tariff

13 In case of \_\_\_\_\_, a WTO member binds itself with legal commitment not to raise tariff rate above a certain level (maximum level of import duty). A member is always free to impose a tariff that is lower than this level

a) Countervailing duties  
b) Bound Tariff  
c) MFN Tariff  
d) Preferential Tariff

14 Countries affected by 'unfair' foreign-trade practices, get back quickly by measures in form of tariff responses to offset the distortion

a) Tariffs as Response to Trade Distortions  
b) "trigger-price" mechanisms  
c) Prohibitive Tariff  
d) Both a & b

15 Dumping occurs when manufacturers sell goods in a foreign country-

a) below the sales prices in their domestic market  
b) below their full average cost of the product  
c) below the variable cost of the product  
d) Both a & b

16 \_\_\_\_\_ is a protectionist tariff that a domestic govt imposes on imports that it believes are priced below fair market value

a) Countervailing duties  
b) Escalated Tariff  
c) Prohibitive Tariff  
d) Anti-dumping duty

17 A 4% tariff on import of cloth (raw material) and a 12% tariff on import of shirt (manufactured good), is an example of-

a) Variable Tariff  
b) Technical Tariff  
c) Escalated Tariff  
d) Preferential Tariff

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18 \_\_\_\_\_ is charged in an importing country to offset advantage that exporters get from subsidies (from their govt.) to ensure fair pricing of imported goods and thus protecting domestic firms

a) Variable Tariff  
b) Technical Tariff  
c) Countervailing duties  
d) Anti-Dumping Tariff

19 Assume that Rs 0.15/unit specific tariff is levied by the government on every sunglass which is imported into India, and if 2000 sunglasses are imported and price of each sunglass is Rs 1000/-, then find out the amount of total tariff revenue collected by the government?

a) Rs 20,00,000  
b) Rs 150  
c) Rs 300  
d) Rs 3,00,000

Goods X	Country A (p. 5)	Country B (p. 6)	Country D (p. 7)
Average Cost	30.5	29.4	30.9
Price per Unit for domestic Sales	31.2	31.1	30.9
Price charged in country D	31.9	30.6	30.6

As per the above table answer the MCQs 20 & 21

20 Which of three exporters engage in anti-competitive act in the international market while pricing its export of good X to country D?

a) Only A  
b) A & B  
c) A, B & C  
d) B & C

21 Advise remedy available for country D in above case?

a) Country D can charge countervailing duty  
b) Country D can charge anti-dumping-duty  
c) Country D can charge Escalated Tariff  
d) Country D can charge Technical Tariff

22 What do you think the implications on trade will be if India pays an export subsidy of Rs 500 /- on every pair of cotton trousers exported by it to Germany

a) Germany can charge countervailing duty  
b) Germany can charge anti-dumping-duty  
c) Germany can charge Escalated Tariff  
d) Germany can charge Preferential Tariff

23 \_\_\_\_\_ combines two policy instruments: quotas and tariffs. Imports entering under specified quota portion are subject to lower or zero tariff rate. Imports above quantitative threshold face a higher tariff

a) Variable Tariff  
b) Tariff Rate Quota  
c) Applied duties  
d) Preferential Tariff

24 Which of the following is not an effect of tariffs

a) Create obstacles to trade, decrease imports & exports  
b) Discourages domestic consumers from buying imported goods  
c) Tariffs decrease government revenues of importing country  
d) Domestic consumers get more consumer surplus

25 \_\_\_\_\_ are policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both

- a) Variable Tariff
- b) Technical Tariff
- c) Non-tariff measures
- d) Anti-Dumping Tariff

26 **Assertion (A):** NTMs are not the same as non-tariff barriers  
**Reason (R):** Non-tariff barriers are discriminatory non-tariff measures imposed by governments to favour domestic over foreign suppliers  
**Choose the correct option-**

- a) Assertion is true, and R is the correct explanation of it
- b) Assertion is false, and R is the correct explanation of it
- c) Assertion is false, but R is not the correct explanation of it
- d) Assertion is true, but R is the correct explanation of it

27 \_\_\_\_\_ are applied to protect human, animal or plant life from risks arising from additives, pests, etc. or disease-causing organisms and to protect biodiversity

- a) Technical Barriers To Trade
- b) Standards and Technical Regulations
- c) Sanitary & Phytosanitary (SPS) Measures
- d) Non-technical Measures

28 Prohibition of import of poultry from countries affected by avian flu, is an example of \_\_\_\_\_

- a) Technical Barriers To Trade
- b) Standards and Technical Regulations
- c) Sanitary & Phytosanitary (SPS) Measures
- d) Non-technical Measures

29 \_\_\_\_\_ covers both food and non-food products - refer to mandatory 'Standards and Technical Regulations' - define specific characteristics that product should have, like size, design, packaging, etc

- a) Technical Barriers To Trade
- b) Standards and Technical Regulations
- c) Sanitary & Phytosanitary (SPS) Measures
- d) Non-technical Measures

30 Food laws, quality standards, industrial standards, organic certification, eco-labelling, and marketing and label requirements- are examples of-

- a) Technical Barriers To Trade
- b) Standards and Technical Regulations
- c) Sanitary & Phytosanitary (SPS) Measures
- d) Non-technical Measures

31 \_\_\_\_\_ are set below the free trade level of imports and are usually enforced by issuing licenses.

- a) Import Quota
- b) Binding Quota
- c) Non-binding Quota
- d) Price Control Measures

32 • Requirement to use certain minimum levels of locally made components,  
• Restricting the level of imported components  
These are examples of-

- a) Financial Measures
- b) Price Control Measures
- c) Distribution Restrictions
- d) Trade-Related Investment Measures

33 \_\_\_\_\_ is a total ban imposed by government on import or export of some commodities to particular country for a specified period

- a) Embargos
- b) Safeguard Measures
- c) Distribution Restrictions
- d) Administrative Procedures

34 \_\_\_\_\_ is a refer to a type of informal quota administered by an exporting country voluntarily restraining the quantity of goods that can be exported out of that country during a specified period of time

- a) Ban on exports
- b) Export Taxes
- c) Export Subsidies & Incentives
- d) Voluntary Export Restraint

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**ANSWER KEY - Chapter 9 - New MCQs by MVSIR (Unit 2)**

1	C	6	D	11	A	16	D	21	B	26	A	31	B
2	A	7	A	12	C	17	C	22	A	27	C	32	D
3	D	8	B	13	B	18	C	23	B	28	C	33	A
4	B	9	C	14	D	19	C	24	D	29	A	34	D
5	D	10	B	15	D	20	D	25	C	30	A		

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New MCQs by MVSIR

UNIT 3

1 **Generalized System of Preferences is an example of-**

a) Unilateral trade agreements  
b) Customs union  
c) Regional Preferential Trade Agreements  
d) Bilateral Agreements

2 **\_\_\_\_\_ is group of countries that eliminate all tariffs on trade among themselves but maintain a common external tariff on trade with countries outside the group**

a) Free-trade area  
b) Customs union  
c) Regional Preferential Trade Agreements  
d) Common Market

3 **\_\_\_\_\_ has a group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries. Eg- Arab League (AL)**

a) Trading Bloc  
b) Customs union  
c) Regional Preferential Trade Agreements  
d) Common Market

4 **\_\_\_\_\_ is a type of RTA which provides for free flow of output and of factors of production by reducing or eliminating internal tariffs on goods and by creating a common set of external tariffs.**

a) Trading Bloc  
b) Customs union  
c) Economic and Monetary Union  
d) Common Market

5 **GATT lost its relevance by the 1980s because-**

a) international investments had expanded substantially  
b) intellectual property rights and trade in services were not covered  
c) world merchandise trade increased by leaps and bounds and was beyond its scope  
d) All of the above

6 **\_\_\_\_\_ marked the birth of the World Trade Organization (WTO)**

a) July 1, 1998  
b) June 1, 1995  
c) April 15, 1994  
d) July 1, 1995

7 **\_\_\_\_\_ is the only global international organization dealing with the rules of trade between nations**

a) World Bank  
b) International Monetary Fund  
c) World Trade Organization (WTO)  
d) United Nations

8 **Which of the following is not the objective of WTO?**

a) to set and enforce rules for international trade  
b) to provide a forum for negotiating and monitoring further trade liberalization  
c) to resolve trade disputes  
d) to decrease the transparency of decision-making processes

9 **WTO has a \_\_\_\_\_ system of decision making**

a) One-tier  
b) Two-tier  
c) Three-tier  
d) Four-tier

10 The WTO's top-level decision-making body is the \_\_\_\_\_ which can take decisions on all matters under any of the multilateral trade agreements

- a) Ministerial Conference
- b) General Council
- c) Trade Policy Review Body
- d) Goods Council, Services Council and Intellectual Property (TRIPS) Council

11 The Ministerial Conference meets at least once every \_\_\_\_\_ years.

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

12 As per \_\_\_\_\_, imported and locally produced goods should be treated equally -- at least after the foreign goods have entered the market.

- a) Most-favoured-nation Principle
- b) National Treatment Principle
- c) Principle of Predictability
- d) Principle of Freer trade

13

As per \_\_\_\_\_, if a country grants someone a special favour (such as a lower customs duty rate for one of their products) then that country has to do the same for all other WTO members.

- a) Most-favoured-nation Principle
- b) National Treatment Principle
- c) Principle of Predictability
- d) Principle of Freer trade

14

\_\_\_\_\_ is not a G20 Member

- a) Argentina
- b) Mexico
- c) Italy
- d) Afghanistan

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ANSWER KEY - Chapter 9 - New MCQs by MVSIR (Unit 3)

1	A	6	D	11	B
2	B	7	C	12	B
3	A	8	D	13	A
4	D	9	C	14	D
5	D	10	A		

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New MCQs by MVSIR

UNIT 4

1 In a \_\_\_\_\_, governments and central banks do not participate in the market for foreign exchange

- a) floating exchange rate regime
- b) fixed exchange rate regime
- c) flexible exchange rate regime
- d) Both a & c

2 Difficulty with free-floating exchange rates exists-

- a) Because it is unpredictable
- b) Because it makes international transactions riskier
- c) Because it increases the cost of doing business with other countries.
- d) All of the above

3 In \_\_\_\_\_, governments and central banks often seek to increase or decrease their exchange rates by buying or selling their own currencies

- a) fixed exchange rate regime
- b) Managed float
- c) Both a & b
- d) None of the above

4 In a \_\_\_\_\_, the exchange rate between two currencies is set by government policy

- a) floating exchange rate regime
- b) fixed exchange rate regime
- c) flexible exchange rate regime
- d) Managed float

5 Which of the following is not an advantage of fixed exchange rate regime?

- a) Can greatly enhance international trade and investment
- b) Allows a Central bank or government to pursue its own independent monetary policy
- c) imposes discipline on a country's monetary authority, thus leads to generate lower levels of inflation.
- d) Can enhance the credibility of the country's monetary-policy

6 \_\_\_\_\_ is argued to be efficient and highly transparent as the exchange rate is free to fluctuate in response to the supply of and demand

- a) fixed exchange rate regime
- b) flexible exchange rate regime
- c) Both a & b
- d) None of the above

7 What is greatest disadvantage of flexible exchange rate regime

- a) Allows exchange rate to be used as a policy tool
- b) No obligation to intervene in currency markets
- c) volatile exchange rates generate a lot of uncertainties
- d) central bank is not required to maintain a huge foreign exchange reserves

8 \_\_\_\_\_ is the rate at which a person can trade the currency of one country for the currency of another country

- a) Real Exchange Rate
- b) Nominal Exchange Rate
- c) Flexible Exchange Rate
- d) Both a & b

9 Trade flows are affected by \_\_\_\_\_. The person or firm buying another currency is interested in what can be bought with it.

a) Real Exchange Rate  
b) Nominal Exchange Rate  
c) Flexible Exchange Rate  
d) Both a & b

10 \_\_\_\_\_ is the rate at which a person can trade the goods and services of one country for the goods and services of another

a) Real Exchange Rate  
b) Nominal Exchange Rate  
c) Flexible Exchange Rate  
d) Both a & b

11 Real exchange rate =

a) Nominal exchange rate x [Foreign price index / Domestic price index]  
b) Nominal exchange rate x [Domestic price index x Foreign price index]  
c) Nominal exchange rate / [Domestic price index x Foreign price index]  
d) Nominal exchange rate x [Domestic price index / Foreign price index]

12 Assume that Rs. 70 is needed to buy one US dollar in foreign exchange market (i.e. the nominal exchange rate is Rs. 70/ US \$). Suppose that a price index of standardized basket of goods and services is Rs. 200 in India and US \$ 100 in United States, find out the real exchange rate? (Treat India as a domestic country and United States as a foreign country)

a) 35  
b) 70  
c) 140  
d) 280

13 The Nominal Exchange rate of India is Rs 56/ 1\$, Price Index in India is 116 and Price Index in USA is 112. What will be the Real Exchange Rate of India?

a) 54.07  
b) 60  
c) 58  
d) 68

14 \_\_\_\_\_ is nominal effective exchange rate (a measure of the value of a domestic currency against a weighted average of various foreign currencies) divided by a price deflator or index of costs

a) Real Exchange Rate  
b) Real Effective Exchange Rate  
c) Fixed Exchange Rate  
d) Nominal Exchange Rate

15 An increase in REER implies that exports become \_\_\_\_\_ and imports become \_\_\_\_\_

a) Expensive, expensive  
b) Cheaper, cheaper  
c) Expensive, cheaper  
d) Cheaper, expensive

16 \_\_\_\_\_ are contracts are agreed upon to buy or sell currencies for future delivery which are carried out in forward and/or futures markets

a) Current Transactions  
b) Future transactions  
c) Spot Transaction  
d) Both a & C

17 Exchange rates prevailing for spot trading (for which settlement by and large takes two days) are called \_\_\_\_\_

a) spot exchange rates  
b) forward exchange rates  
c) Nominal exchange rate  
d) Real exchange rate



**18** \_\_\_\_\_ is considered as vehicle currency

a) Indian Rupee  
b) US Sterling (Pounds)  
c) Japanese Yen  
d) US Dollars

**19** On the demand side, people desire foreign currency to-

a) To purchase goods and services from another country  
b) for unilateral transfers such as gifts, awards, grants, donations or endowments  
c) to make investment income payments abroad  
d) All of the above

**20** The equilibrium rate of exchange is determined by the interaction of the \_\_\_\_\_ for a particular foreign currency

a) Demand & supply curves  
b) Production & Cost curves  
c) Both a & b  
d) None of the above

**21** \_\_\_\_\_ takes place when there is an increase in the home currency price of the foreign currency (or, alternatively, a decrease in the foreign currency price of the home currency)

a) Home-currency appreciation  
b) foreign-currency appreciation  
c) Home-currency depreciation  
d) Both b & c

**22** If the Rupee dollar exchange rate in the month of Jan is \$1 = Rs. 70 and Rs. 65 in June. This is an example of- (INR - Home currency)

a) Home-currency appreciation  
b) foreign-currency appreciation  
c) Home-currency depreciation  
d) Both a & b

**23** \_\_\_\_\_ is a deliberate downward adjustment in the value of a country's currency relative to another country's currency or group of currencies or standard

a) Devaluation  
b) Appreciation  
c) Revaluation  
d) Depreciation

**24** An appreciation of home currency does not lead to \_\_\_\_\_

a) Increases price of exports  
b) cause larger budget deficits and worsen the current account of government  
c) Increases in the levels of inflation  
d) greater incentives to introduce technological innovations to cut cost

**25** Explain the implications of the following on the exchange rate in foreign exchange market- Merry Land's exports remained more or less stagnant in the years 2005-06 to 2016-17. However, due to heavy thrust on industrialization, import of machinery, raw materials, and components as well as associated services of different types increased

a) Home-currency appreciation  
b) foreign-currency appreciation  
c) Home-currency depreciation  
d) Both b & c

26 Explain the implications of the following on the exchange rate-  
Investors in Australia perceive that the returns on investments in the US would be much more lucrative than elsewhere. As a result there is a huge increase in demand for investments in US dollar denominated financial investments

- a) AUD will appreciate, and USD will appreciate
- b) AUD will depreciate, and USD will appreciate
- c) AUD will depreciate, and USD will depreciate
- d) AUD will appreciate, and USD will depreciate

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**ANSWER KEY – Chapter 9 – New MCQs by MVSIR (Unit 4)**

1	D	6	B	11	D	16	B	21	D	26	B
2	D	7	C	12	C	17	A	22	A		
3	B	8	B	13	C	18	D	23	A		
4	B	9	A	14	B	19	D	24	C		
5	B	10	A	15	C	20	A	25	D		

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New MCQs by MVSIR

UNIT 5

<b>1</b>	<b>Loans from international institutions like World Bank, are a part of ____</b>
	a) Borrowings b) Foreign aid or assistance c) Deposits from non-resident Indians d) International Investments
<b>2</b>	<b>____ are "all investments involving long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the direct investor"</b>
	a) Foreign Portfolio Investment (FPI) b) Foreign Direct Investment (FDI) c) Both a & b d) Deposits from non-resident Indians
<b>3</b>	<b>As per according to IMF manual on 'Balance of payments', FDI occurs through acquisition of more than ____ of the shares of the target asset</b>
	a) 5% b) 10% c) 50% d) 51%
<b>4</b>	<b>According to IMF and OECD definitions, _____ makes it eligible to be categorized as foreign direct investment (FDI)</b>
	a) the acquisition of at least 10% of the ordinary shares b) voting power in a public or private enterprise by non-resident investors c) the acquisition of at least 51% of the ordinary shares d) Both a or b

<b>5</b>	<b>The components of FDI are ____</b>
	a) Equity capital b) Reinvested earnings c) Other direct capital in the form of intra company loans between direct investors (parent enterprises) and affiliate enterprises d) All of the above
<b>6</b>	<b>The modes of FDI are ____</b>
	a) opening of overseas companies, b) including the establishment of subsidiaries or branches, c) creation of joint ventures on a contract basis d) All of the above
<b>7</b>	<b>A cell phone service provider based in USA, moving to India to provide the same service. This is an example of-</b>
	a) Horizontal FDI b) Vertical FDI c) Conglomerate FDI d) Two-way direct foreign investments
<b>8</b>	<b>An automobile manufacturing company may acquire an interest in a foreign company that supplies parts or raw materials required for company. This is an example of-</b>
	a) Horizontal FDI b) Vertical FDI c) Conglomerate FDI d) Two-way FDI
<b>9</b>	<b>____ is one where an investor makes a foreign investment in a business unrelated to existing business in home country</b>
	a) Horizontal FDI b) Vertical FDI c) Conglomerate FDI d) Two-way FDI

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10 \_\_\_\_\_ investments occur when some industries are more advanced in one nation (Eg-computer industry in USA), while other industries are more efficient in other nations (Eg automobile industry in Japan).

- a) Horizontal FDI
- b) Vertical FDI
- c) Conglomerate FDI
- d) Two-way direct foreign investments

11 Deposit of funds in an Indian or a British bank by an Italian company. Is an example of-

- a) Foreign Portfolio Investment
- b) Horizontal FDI
- c) Foreign Direct Investment
- d) Conglomerate FDI

12 The purchase of a bond (a certificate of indebtedness) of a Swiss company or the Swiss government by a citizen or company based in France. Is an example of-

- a) Foreign Portfolio Investment
- b) Horizontal FDI
- c) Foreign Direct Investment
- d) Conglomerate FDI

13 \_\_\_\_\_ is not concerned with either manufacture of goods or with provision of services

- a) Foreign Portfolio Investment
- b) Horizontal FDI
- c) Foreign Direct Investment
- d) Conglomerate FDI

14 \_\_\_\_\_ involves creation of physical assets

- a) Foreign Portfolio Investment
- b) Foreign Direct Investment
- c) Both a & b
- d) None of the above

15 \_\_\_\_\_ is only short term interest and generally remain invested for short periods

- a) Foreign Portfolio Investment
- b) Conglomerate FDI
- c) Foreign Direct Investment
- d) Both a & c

16 \_\_\_\_\_ is speculative in nature

- a) Foreign Portfolio Investment
- b) Conglomerate FDI
- c) Foreign Direct Investment
- d) Both b & c

17 \_\_\_\_\_ is often accompanied by technology transfer

- a) Foreign Portfolio Investment
- b) Foreign Direct Investment
- c) Both a & b
- d) None of the above

18 \_\_\_\_\_ involves an abiding interest in management and control

- a) Foreign Portfolio Investment
- b) Foreign Direct Investment
- c) Both a & b
- d) None of the above

19 Under \_\_\_\_\_ securities are held with significant degree of influence by the investor on the management of the enterprise

- a) Foreign Portfolio Investment
- b) Foreign Direct Investment
- c) Both a & b
- d) None of the above

**20** \_\_\_\_\_ is not a reason for foreign direct investment

a) increasing interdependence of national economies  
 b) desire to reap economies of large-scale operation arising from technological growth  
 c) unstable political environment and overall favourable investment climate in the host country  
 d) promoting optimal utilization of physical, human, financial and other resources

**21** \_\_\_\_\_ is not a reason for foreign direct investment

a) infrastructure lags  
 b) high rates of inflation  
 c) unfavourable tax regime,  
 d) All of the above

**22** \_\_\_\_\_ is a form of FDI which makes use of the existing infrastructure by merging, acquiring or leasing, instead of developing a completely new one

a) Joint Venture  
 b) Greenfield investment  
 c) Brownfield investment  
 d) Both b & c

**23** Which of the following is not a benefit of foreign direct investment ?

a) Entry of foreign enterprises fosters competition and in the host country  
 b) FDI can accelerate growth and foster economic development  
 c) FDI for accentuates the already existing income inequalities in the host country  
 d) FDI promotes relatively higher wages for skilled jobs.

**24** Which of the following is not a problem associated with foreign direct investment ?

a) FDI flows to move towards regions or states which are well endowed in terms of natural resources and availability of infrastructure has the potential to accentuate regional disparity  
 b) Inflow of foreign capital may cause the domestic governments to slow down its efforts to generate more domestic savings  
 c) Increased competition resulting from the inflow of FDI facilitates weakening of the market power of domestic monopolies  
 d) The high growth of wages in foreign corporations can influence a similar escalation in the domestic corporations which are not able to cover this increase with growth of productivity

**ANSWER KEY – Chapter 9 – New MCQs by MVSIR (Unit 4)**

1	A	6	D	11	A	16	A	21	D
2	B	7	A	12	A	17	B	22	C
3	B	8	B	13	A	18	A	23	C
4	D	9	C	14	B	19	B	24	C
5	D	10	D	15	A	20	C		

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CA Foundation – New Syllabus  
Business Economics

Chapter 9  
**INTERNATIONAL TRADE**

**ICAI Extra MCQs**

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ICAI Extra MCQs

<b>1</b>	<p>Which of the following measures involve total ban imposed by government on import or export of some or all commodities to particular country or regions for a specified or indefinite period?</p> <p>a) Import Quotas b) Anti dumping duties c) Escalated tariffs d) embargos</p>
<b>2</b>	<p>ONGC Videsh Limited has been incorporated by its parent entity ONGC for oil and gas acreages, involving exploration, development and production of oil and gas outside India. Which type of foreign investment is it?</p> <p>a) Joint Venture b) Brownfield Investment c) Greenfield investment d) Licensing</p>
<b>3</b>	<p><b>Depreciation of currency will :</b></p> <p>a) Enhance government revenue from import tax b) Increase trade competitiveness c) Reduce import of gold d) All of the above</p>
<b>4</b>	<p><b>Free trade implies :</b></p> <p>a) No trade barriers: b) Includes tariff barriers but no to non-tariff barriers. c) Includes non-tariff barriers but no to tariff barriers. d) None of the above.</p>
<b>5</b>	<p>Which theory considers bullion as a part of international trade?</p> <p>a) Modern theory of trade b) Factor equalization theorem c) Comparative cost advantage theory d) mercantilism</p>

<b>6</b>	<p><b>Countries with abundance of capital should focus on :</b></p> <p>a) Labour intensive goods b) Capital intensive goods c) Distribute between labour and capital intensive goods d) A importing more machinery</p>
<b>7</b>	<p><b>A group of countries that have a free trade agreement between themselves and may apply a common external tariff to other countries :</b></p> <p>a) Free trade area b) Custom union c) Trade bloc d) Regional preferential trade agreements</p>
<b>8</b>	<p><b>The secretariat of WTO is based in :</b></p> <p>a) Geneva b) Moscow c) Italy d) France</p>
<b>9</b>	<p><b>A country has a comparative advantage in producing a good if it can produce that good :</b></p> <p>a) At a lower absolute cost than other countries b) At a higher absolute cost than other countries c) More efficiently than other countries d) More slowly than other countries</p>
<b>10</b>	<p><b>According to Adam Smith International Trade is :</b></p> <p>a) Zero sum game b) Non a zero sum game c) All of the above d) None of the above</p>

**11** Which of the following is not one of the features of New Trade Theory by Paul Krugman?

- a) Countries which trade in similar goods are natural trade partners
- b) It is based on labor theory of value
- c) Network effect as means of engaging in international trade
- d) It focuses more on economies of scale

**12** Which of the following is not one of the disadvantages of Foreign Direct Investment in India?

- a) It is focused more on capital intensive methods of production.
- b) FDI promotes regional imbalance in the country.
- c) The domestic industries will suffer as a result of anti-competitive practices
- d) It fosters human capital formation and productivity in the host country

**13** Which of the following is outside the WTO :

- a) Wheat
- b) IT
- c) Palm oil
- d) E-commerce

**14** Factor abundance is considered to be part of international trade in:

- a) Heckscher ohlin theory of international trade
- b) Comparative cost advantage theory
- c) New trade theory
- d) Factor equalization theorem

**15** The concept of opportunity cost is employed under:

- a) Modern theory of trade
- b) Factor equalization theorem
- c) Comparative cost advantage theory
- d) Absolute cost advantage theory

**16** Which of the following is a disadvantage of international trade?

- a) Increased choice for consumers
- b) Risk of dependence on imports
- c) Increased specialization
- d) None of the above

**17** In 2020, united states, Mexico and Canada formed an agreement named USMCA. Which of the following type of regional Trade agreement is reflected in the above case?

- a) Trading bloc
- b) Free-trade area
- c) Common market
- d) Customs union

**18** The total member countries under WTO currently:

- a) 164
- b) 171
- c) 169
- d) 161

**19** National Treatment Principle (NTP) says:

- a) Imported goods and domestic goods should be treated equally.
- b) Exported goods and imported goods should be treated equally.
- c) Imported goods and domestic goods should be treated differently.
- d) Internal trade is more important than international trade.



20 Prices of output of goods and prices of factors are equalized under?

- a) Modern theory of international trade
- b) Factor Equalization theorem
- c) New trade theory
- d) Absolute cost advantage theory

21 The central bank of a country is concerned about the high level of household debt and its potential impact on the economy. Which of the following actions can it take to address the issue?

- a) Increase the reserve requirement ratio to reduce lending
- b) Decrease the reserve requirement ratio to increase lending
- c) Increase the interest rate on loans to discourage borrowing
- d) Decrease the interest rate on loans to encourage borrowing

22 India imposed Anti-dumping Duties on the imports of Steel and Aluminum from China. Which one of the following is not one of the reason for the Government of India to adopt this measure?

- a) To protect the domestic industries and employment
- b) Overvaluation of export price by exporters
- c) Undervaluation of export price by exporters
- d) A price discrimination by exporters in different markets

23 Which of the following is an example of a preferential trade agreement?

- a) European Union(EU)
- b) North American Free Trade Agreement (NAFTA)
- c) Trans-Pacific Partnership (TPP)
- d) All of these

24 Which of the following instrument is not FDI compliant instrument?

- a) Equity shares
- b) Compulsorily convertible debentures
- c) Redeemable preference share
- d) None of the above

25 Under which union they have or follow a common monetary policy and fiscal policy:

- a) Economic union
- b) Custom union
- c) Common market
- d) All the above

26 According to Factor price equalization theorem :

- a) International trade tends to equalize the factor prices between the trading nations
- b) International trade tends to equalize the exchange rates
- c) Both a and b
- d) None of these

27 What is the similarity between the Subprime Crisis and Greece Crisis?

- a) High Financial Leverage
- b) Low-interest Rate
- c) Credit expansion
- d) All of the above

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**ANSWER KEY – Chapter 9 – ICAI Extra MCQs**

1	D	6	B	11	B	16	B	21	A	26	C
2	C	7	C	12	D	17	B	22	B	27	D
3	D	8	A	13	D	18	A	23	C		
4	A	9	A	14	A	19	A	24	C		
5	D	10	B	15	C	20	B	25	A		



CA Foundation – New Syllabus  
Business Economics

Chapter 9  
INTERNATIONAL TRADE

ICAI SM MCQs

MCQ Compiler by MVSIR



CA Foundation – New Syllabus  
Business Economics

Chapter 9  
**INTERNATIONAL TRADE**

**ICAI SM MCQs**

MCQ Compiler by MVSIR

**UNIT 1**

**Basic**

ICAI SM

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

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

ICAI SM

**2** The theory of absolute advantage states that

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

Labour cost (hours) for production of one unit

	Country A	Country B
Cloth	40	80
Grain	80	40

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

ICAI SM

**6** According to the theory of comparative advantage

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

**ICAI SM**

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

**Labour cost (hours) for production of one unit**

	Wheat	Rice
Country X	10	20
Country Y	20	10

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

**ICAI SM**

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

**Labour cost (hours) for production of one unit**

	India	Bangladesh
Tables	3	8
Mats	2	1

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

**ICAI SM**

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

**ICAI SM**

10 Ricardo explained the law of comparative advantage on the basis of

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

**Answer Key - Chapter 9 ICAI MCQs (Unit - 1)**

1	B	3	D	5	B	7	B	9	B
2	B	4	C	6	B	8	B	10	D

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**UNIT 2**

**Basic**

ICAI SM

**1 A specific tariff is**

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

**4 Escalated tariff refers to**

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

ICAI SM

**5 Voluntary export restraints involve:**

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

ICAI SM	
6	Anti-dumping duties are
<p>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.</p> <p>b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government</p> <p>c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market</p> <p>d) Both (a) and (c) above</p>	

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

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

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

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



ICAI SM

11 Under tariff rate quota

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

ICAI SM

12 Non-tariff barriers (NTBs) include all of the following except:

- a) import quotas
- b) tariffs
- c) export subsidies
- d) technical standards of products

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Answer Key –Chapter 9 ICAI MCQs (Unit – 2)

1	D	4	B	7	D	10	C
2	B	5	C	8	C	11	B
3	B	6	D	9	D	12	B

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**UNIT 3**

**Basic**

ICAI SM

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

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

ICAI SM

**2** Choose the correct statement

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

ICAI SM

**3** The 'National treatment' principle stands for

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

ICAI SM

**4** 'Bound tariff' refers to

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

ICAI SM

**5** The essence of 'MFN principle' is

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

ICAI SM

**6** The World Trade Organization (WTO)

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

ICAI SM

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

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

ICAI SM

8 The Agreement on Textiles and Clothing

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

11 The WTO commitments

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

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Answer Key - Chapter 9 ICAI MCQs  
(Unit - 3)

1	C	4	C	7	C	10	C
2	B	5	D	8	B	11	B
3	B	6	D	9	D		

**UNIT 4**

**Basic**

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

- 4
- i. floating exchange rate
  - ii. fixed exchange rate
  - iii. pegged exchange rate
  - iv. devaluation
  - v. appreciation
- a. depreciation
  - b. revaluation
  - c. flexible exchange rate

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

ICAI SM	
5	<b>Choose the correct statement</b>
<p>a) An indirect quote is the number of units of a local currency exchangeable for one unit of a foreign currency</p> <p>b) the fixed exchange rate regime is said to be efficient and highly transparent.</p> <p>c) A direct quote is the number of units of a local currency exchangeable for one unit of a foreign currency</p> <p>d) Exchange rates are generally fixed by the central bank of the country</p>	

ICAI SM	
6	<b>Which of the following statements is true?</b>
<p>a) Home-currency appreciation or foreign-currency depreciation takes place when there is a decrease in the home currency price of foreign currency</p> <p>b) Home-currency depreciation takes place when there is an increase in the home currency price of the foreign currency</p> <p>c) Home-currency depreciation is the same as foreign-currency appreciation and implies that the home currency has become relatively less valuable.</p> <p>d) All the above</p>	

ICAI SM	
7	<b>An increase in the supply of foreign exchange</b>
<p>a) shifts the supply curve to the right and as a consequence, the exchange rate declines</p> <p>b) shifts the supply curve to the right and as a consequence, the exchange rate increases</p> <p>c) more units of domestic currency are required to buy a unit of foreign exchange</p> <p>d) the domestic currency depreciates and the foreign currency appreciates</p>	

ICAI SM	
8	<b>Currency devaluation</b>
<p>a) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries</p> <p>b) may reduce export prices and increase the international competitiveness of domestic industries</p> <p>c) may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services</p> <p>d) (a) and (c) above</p>	

ICAI SM	
9	<b>At any point of time, all markets tend to have the same exchange rate for a given currency due to</b>
<p>a) Hedging</p> <p>b) Speculation</p> <p>c) Arbitrage</p> <p>d) Currency futures</p>	

ICAI SM

10 'Vehicle Currency' refers to

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

Answer Key – Chapter 9 ICAI MCQs (Unit – 4)

1	B	3	A	5	C	7	A	9	C
2	C	4	D	6	D	8	B	10	D

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**UNIT 5**

**Basic**

ICAI SM

**1 Which of the following statements is incorrect?**

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

ICAI SM

**2 Which of the following is a component of foreign capital?**

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

8 A foreign direct investor

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

ICAI SM

9 Foreign investments are prohibited in

- a) Power generation and distribution
- b) Highways and waterways
- c) Chit funds and Nidhi company
- d) Airports and air transport

ICAI SM

10 Which of the following statement is false in respect of FPI?

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

Answer Key – Chapter 9 – ICAI MCQs (Unit – 5)

1	C	3	C	5	A	7	D	9	C
2	D	4	C	6	B	8	D	10	C

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Business Economics

Chapter 9  
**INTERNATIONAL TRADE**

**MTP MCQs**

MCQ Compiler by MVSIR

MTP Apr 24	
1	What is the purpose of a voluntary export restraint (VER)?
a) To limit the quantity of exports. b) To encourage foreign producers to export more c) To reduce the cost of imports. d) To comply with international trade agreements.	

MTP Apr 24	
5	Which of the following is more sensitive to short-term changes in economic conditions?
a) FDI b) FPI c) Both FDI and FPI d) Neither FDI nor FPI	

MTP Apr 24	
2	The quantity of dollars supplied will decrease if:
a) imports into the United States increase. b) the expected future exchange rate falls c) the interest rate in the United States falls d) fewer U.S. residents travel abroad.	

MTP Apr 24	
6	Which type of investment is more influenced by government regulations and policies?
a) FDI b) FPI c) Both FDI and FPI d) Neither FDI nor FPI	

MTP Apr 24	
3	Quantitative restrictions refer to limits set by countries to curb:
a) Imports b) Exports c) Imports & exportse d) None of the above	

MTP Apr 24	
7	Which international organization is responsible for facilitating trade negotiations and resolving trade disputes among member countries?
a) World Health Organization (WHO) b) International Monetary Fund (IMF) c) World Trade Organization (WTO) d) United Nations Educational, Scientific and Cultural (UNESCO)	

MTP Apr 24	
4	Theory of Mercantilism propagates:
a) Encourage exports and imports b) Encourage exports and discourage imports c) Discourage exports and imports d) Discourage exports and encourage imports	

MTP Apr 24	
8	Which trade policy tool is designed to directly support domestic producers by reducing the cost of exporting goods?
a) Export subsidy b) Import quota c) Voluntary export restraint d) Export tariff	

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Answer Key – Chapter 9 MTP MCQs

1	A	6	A
2	D	7	C
3	C	8	A
4	B		
5	B		

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Business Economics

Chapter 10  
**INDIAN ECONOMY**

**New MCQs by MVSIR**

MCQ Compiler by MVSIR

**New MCQs by MVSIR**

1 Between the first and the \_\_\_\_\_, India is believed to have had the largest economy of the ancient and the medieval world.

- a) the sixteenth century AD
- b) the seventeenth century AD
- c) the eighteenth century AD
- d) the nineteenth century AD

2 \_\_\_\_\_ was the dominant occupation and the main source of livelihood for majority of people.

- a) Agriculture
- b) Manufacturing
- c) Service Sector
- d) All of the above

3 The earliest known treatise on ancient Indian economic philosophy is \_\_\_\_\_

- a) Arthashastra
- b) Dharmashastra
- c) Natyashastra
- d) All of the above

4 The period of British rule can be divided into two sub periods: The rule of East India Company was from

- a) 1758 to 1857
- b) 1757 to 1858
- c) 1756 to 1858
- d) 1758 to 1856

5 British government ruled in India from

- a) 1856 to 1947
- b) 1857 to 1947
- c) 1858 to 1947
- d) None of the above

6 With the onset of Industrial revolution in the latter half of the \_\_\_\_\_, the manufacturing capabilities of Britain increased manifold, and consequently there arose the need to augment raw material supply as well as the need for finding markets for finished goods.

- a) 17<sup>th</sup> century
- b) 18<sup>th</sup> century
- c) 19<sup>th</sup> century
- d) 20<sup>th</sup> century

7 The cotton milling business grew steadily throughout the second half of the \_\_\_\_\_, and achieved high international competitiveness.

- a) 17<sup>th</sup> century
- b) 18<sup>th</sup> century
- c) 19<sup>th</sup> century
- d) 20<sup>th</sup> century

8 Rapid industrialization of the economy was the cornerstone of \_\_\_\_\_ development strategy.

- a) Gandhi's
- b) Bose's
- c) Tagore's
- d) Nehru's

9 Literacy rate was just above \_\_\_\_\_ percent and barely \_\_\_\_\_ years of life expectancy in 1951

- a) 18, 32
- b) 17, 32
- c) 18, 34
- d) 17, 34

10 With continuous failures of monsoon, two severe and consecutive droughts struck India in 1966 and \_\_\_\_\_

- a) 1970
- b) 1969
- c) 1968
- d) 1967

11	<p>The seeds of early liberalisation and reforms were sown during the 1980s, especially after 1985. In early 1980s considerable efforts were initiated in different directions to restore reasonable price stability through a combination of tight monetary policy, fiscal moderation and a few structural reforms. These initiatives, spanning 1981 to 1989, practically referred to as _____</p>	14	<p>The 'New Industrial Policy' announced by the government on _____</p>
<p>a) 'early liberalization' b) 'reforms by stealth' c) Both a and b d) None of the above</p>		<p>a) 23 July 1991 b) 24 July 1991 c) 25 July 1991 d) 26 July 1991</p>	
12	<p>The reforms, popularly known as liberalization, privatization and globalisation, spelt a major shift in economic philosophy and fundamental change in approach and had following objectives:</p>	15	<p>The trade policy reforms aimed at:</p>
<p>a) reorientation of the economy &amp; macroeconomic stabilization b) reorientation of the economy &amp; mlcroeconomic stabilization c) Both a and b d) None of the above</p>		<p>a) dismantling of quantitative restrictions on imports and exports b) focusing on a more outward oriented regime with phased reduction and simplification of tariffs c) removal of licensing procedures for imports. d) All of the above</p>	
13	<p>Drastic monetary and financial sector reforms were introduced with the objective of making the financial system more efficient and transparent. These included many measures, which is among them ?</p>	16	<p>On _____, the apex policy-making body namely Planning Commission, was replaced by the National Institution for Transforming India (NITI) Aayog.</p>
<p>a) Interest rate liberalization and reduction in controls on banks by the RBI b) Opening of new private sector banks c) Liberalisation of bank branch licensing policy d) All of the above</p>		<p>a) 1st January 2015 b) 1st February 2015 c) 1st March 2015 d) 1st April 2015</p>	
17		17	<p>NITI Ayog will work towards which of the objectives?</p>
		<p>a) To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of states. b) To develop mechanisms to formulate credible plans at the village level c) To pay special attention to the sections of our society that may be at risk of not benefiting adequately from economic progress. d) All of the above</p>	

18	Which one is the key initiatives of NITI Aayog ?		Manufacturing is the most important sector & accounts for _____ of total production. The manufacturing GVA at current prices was estimated at US\$ _____ in third quarter of financial year 2021-22 & has contributed around 16.3% to the nominal GVA during the past 10 years.
<p>a) India Policy Insights (IPI) b) Shoonya campaign c) E-Amrit, a one-stop destination for all information on electric vehicles d) All of the above</p>		22	<p>a) 76%, 75.47 billion b) 77%, 76.47 billion c) 78%, 77.47 billion d) 79%, 78.47 billion</p>
19	Exports of agricultural and processed food products rose by _____ within six months of the current financial year 2022-23 (April-September) in comparison to the corresponding period in 2021-22.		<p>a) 20% b) 25% c) 30% d) 35%</p>
20	Despite phenomenal increase in output of both food crops and commercial crops, State the issues faced by Indian agriculture.	23	<p>According to the Department for Promotion of Industry and Internal Trade (DPIIT), India received a total foreign direct investment (FDI) inflow of US\$ 58.77 billion in 2021-22. Which from below are the challenges to the industrial sector?</p> <p>a) Shortage of efficient infrastructure and manpower b) Strained labor-management relations and loss of man hours. c) Global supply chain disruptions and uncertainties. d) All of the above</p>
21	The Indian industry holds a significant position in the Indian economy contributing about _____ of total gross value added in the country and employing over 12.1 crores of people.	24	<p>India is among the top _____ World Trade Organization (WTO) members in service exports and imports.</p> <p>a) 5 b) 10 c) 15 d) 20</p>
22	<p>a) High food price volatility b) Poor adoption of new agricultural technologies c) Lopsided marketing practices and ineffective credit delivery d) All of the above</p>	25	<p>Real GDP of India grew by _____ in July-September of 2022-23 driven by strong private consumption and investment.</p> <p>a) 6.3 % b) 6.6 % c) 7.3 % d) 7.6 %</p>

26	Between the first and the 17th Century AD, India was prosperous and self-radiant and is believed to have controlled _____ of the world's wealth.	30	At the end of the 19th century, the Indian jute mill industry was the _____ in the world in terms of the amount of raw jute consumed in production.
<p>a) One Tenth b) One Third c) One Fourth d) Between one third and one fourth</p>		<p>a) Largest b) Fifth Largest c) Fourth Largest d) Smallest</p>	
27	In British era, which of the following factors forced many to depend on agriculture for livelihood?	31	Heavy industries such as the iron industry were established as early as 1814 by British capital. India's iron industry was ranked _____ in the world in terms of output in 1930.
<p>a) Large scale unemployment b) Absence of alternate sources of employment c) Both (a) and (b) d) None of these</p>		<p>a) Second b) Fourth c) Sixth d) Eighth</p>	
28	In British era, the increased pressure on land led to _____	32	Just before the Great Depression, India was ranked as the _____ largest industrialized country measured by the value of manufactured products.
<p>a) Sub-division and fragmentation of land holdings b) Subsistence farming c) Reduced agricultural productivity and poverty d) All of the above</p>		<p>a) Fifth b) Tenth c) Twelfth d) Fifteenth</p>	
29	The 'Modern' industrial enterprises in colonial India started to grow in the _____	33	At the time of independence, India was overwhelmingly rural inhabited by mostly _____ people who were exceedingly _____
<p>a) Mid-17<sup>th</sup> century b) Mid-21<sup>st</sup> century c) Mid-20<sup>th</sup> century d) Mid-19<sup>th</sup> century</p>		<p>a) Literate, rich b) Illiterate, poor c) Wealthy, healthy d) Healthy, Wealthy</p>	

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33	At the time of independence, literacy rate just above 18 percent and barely 32 years of life expectancy in 1951, India's poverty was not just in terms of income alone, but also in terms of human capital	37	The Indian government nationalized ___ banks in 1969 and then followed it up with nationalizing another ___ in 1980
<p>a) Literate, rich b) Illiterate, poor c) Wealthy, healthy d) Healthy, Wealthy</p>		<p>a) 20 , 6 b) 6 , 20 c) 14 , 6 d) 6 , 14</p>	
34	In Industrial Policy Resolution of 1956, a natural outcome of the undue priority for public sector was the _____.	38	The economic performance during the period of _____ is the worst in independent India's history. The decline in growth during this period is attributed mainly to decline in productivity
<p>a) Dampening of private initiative and enterprise b) Negative consequences of industrial growth c) Private investments were discouraged d) All of the above</p>		<p>a) 1947 - 1990 b) 1965 - 1981 c) 1955 - 1971 d) 1965 - 1990</p>	
35	In the first three decades after independence (1950-80), India's average annual rate of growth of GDP- often referred to as the 'Hindu growth rate'- was a modest _____	39	Based on the real effective exchange rate (REER), the rupee was depreciated by about _____ from 1985-86 to 1989-90
<p>a) 2% b) 3.50% c) 4% d) 5.50%</p>		<p>a) 20% b) 30% c) 40% d) 50%</p>	
36	In 1954, India signed a long-term agreement with the US for food aid. What was the name of this agree- ment?	40	Securities and Exchange Board of India (SEBI) was established on _____ as a non-statutory body on through a resolution of the Government of India?
<p>a) PL 840 b) PL 240 c) PL 520 d) PL 480</p>		<p>a) April 1, 1982 b) April 12, 1988 c) April 1, 1988 d) April 12, 1983</p>	

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41	The budget for 1986 introduced policies of _____.
	a) Cutting taxes further b) Liberalizing imports c) Reducing tariffs d) All of the above
42	In 1991, The foreign exchange reserves touched the lowest point with a reserve of only _____ which was barely sufficient for two weeks of imports
	a) \$1.2 billion b) \$2.2 billion c) \$3.2 billion d) \$4.2 billion
43	The Securities and Exchange Board of India (SEBI) which was set up in 1988 was given statutory recognition in _____
	a) 1988 b) 1990 c) 1992 d) 1994
44	The 'New Industrial Policy' announced by the government on _____ sought to substantially deregulate industry so as to promote growth of a more efficient and competitive industrial economy
	a) 1 April 1990 b) 24 July 1991 c) 24 July 1990 d) 1 April 1991
45	In India, in 1990-91 the highest tariff rate was _____
	a) 90% b) 255% c) 300% d) 355%

46	On _____, the apex policy-making body namely Planning Commission, was replaced by the National Institution for Transforming India (NITI) Aayog
	a) 1 <sup>st</sup> April 2014 b) 5 <sup>th</sup> August 2019 c) 1 <sup>st</sup> January 2015 d) 5 <sup>th</sup> August 2015
47	The major shortcoming of NITI Aayog is _____
	a) its exclusion from the budgeting process b) Incompetence in execution of plans c) Lacking autonomy and balance of power within policy making apparatus of the central government d) Both a & c
48	_____ scheme was made to promote manufacturing of electric and hybrid vehicle technology and to ensure sustainable growth of the same
	a) National Logistics Policy b) Industrial Corridor Development Programme c) FAME-India d) Udyami Bharat
49	In line with the recommendations of the Narasimham Committee Report, 1991, what was done as regards Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR)?
	a) Increase in both SLR and CRR b) Decrease in both SLR and CRR c) Increase in SLR & Decrease in CRR d) Decrease in SLR & Increase in CRR

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50 Foreign Investment Promotion Board (FIPB) was abolished in May 2017, and a new regime namely \_\_\_\_\_ has been put in place

- a) Foreign Investment Facilitation Board
- b) Foreign Investment Facilitation Portal
- c) Domestic Investment Promotion Portal
- d) Foreign Investment Promotion Portal

51 \_\_\_\_\_ FDI under automatic route is permitted for the sale of coal, and coal mining activities, including associated processing infrastructure and for insurance intermediaries

- a) 20%
- b) 49%
- c) 51%
- d) 100%

52 The National Manufacturing Policy which aims to increase the share of manufacturing in GDP to \_\_\_\_\_ by 2025 is a step in this direction

- a) 20%
- b) 25%
- c) 50%
- d) 100%

53 India is among the top \_\_\_\_\_ World Trade Organization (WTO) members in service exports and imports

- a) 2
- b) 3
- c) 5
- d) 10

54 The Indian \_\_\_\_\_ sector is the largest recipient of FDI inflows

- a) Primary (agriculture)
- b) Secondary (manufacturing)
- c) Tertiary (Services)
- d) All of the above

55 India is the world's \_\_\_\_\_ producer of fruits, vegetables, tea, farmed fish, cotton, sugarcane, wheat, rice, cotton and sugar.

- a) Largest
- b) Second Largest
- c) Third Largest
- d) Fifth


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Answer Key - Chapter 10 - New MCQs

1	B	6	B	11	C	16	A	21	B	26	D
2	A	7	C	12	A	17	D	22	C	27	C
3	A	8	D	13	D	18	D	23	D	28	D
4	B	9	A	14	B	19	B	24	B	29	D
5	C	10	D	15	D	20	D	25	A	30	A
31	D	36	D	41	D	46	C	51	D		
32	D	37	C	42	A	47	D	52	B		
33	B	38	B	43	C	48	C	53	D		
34	D	39	B	44	B	49	B	54	C		
35	B	40	B	45	D	50	B	55	B		

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CA Foundation – New Syllabus  
Business Economics

Chapter 10  
**INDIAN ECONOMY**

**ICAI SM MCQs**

MCQ Compiler by MVSIR

**Basic**

**ICAI SM**

**1** The Indian industry stagnated under the colonial rule because

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

**ICAI SM**

**2** The first wave of liberalization starts in India

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

**ICAI SM**

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

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

**ICAI SM**

**4** Merchandise Exports from India Scheme was replaced by -

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

**ICAI SM**

**5** The Foreign Investment Promotion Board (FIPB)

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

**ICAI SM**

**6** FAME-India Scheme aims to

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

<b>ICAI SM</b>
<b>Terms of Ease of Doing Business in 2020 India ranks</b>
one of the above

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

<b>ICAI SM</b>	
<b>9</b>	<b>Which of the following is not a policy reform included in the new economic policy of 1991 -</b>
<p>a) removing licensing requirements for all industries</p> <p>b) Foreign investment was liberalized</p> <p>c) Liberalisation of international trade</p> <p>d) The disinvestment of government holdings of equity share capital of public sector enterprises</p>	

<b>ICAI SM</b>	
<b>10</b>	<b>Imports of foreign goods and entry of foreign investments were restricted in India because -</b>
<p>a) The government wanted people to follow the policy of 'Be Indian; Buy Indian'</p> <p>b) Because foreign goods were costly and meant loss of precious foreign exchange</p> <p>c) Government policy was directed towards protection of domestic industries from foreign competition</p> <p>d) Government wanted to preserve Indian culture and to avoid influence of foreign culture</p>	

<b>ICAI SM</b>	
<b>11</b>	<b>The 'Hindu growth rate' is a term used to refer to -</b>
<p>a) the high rate of growth achieved after the new economic policy of 1991</p> <p>b) the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year</p> <p>c) the low growth of the economy during British period marked by an average of 3.5 percent</p> <p>d) the growth rate of the country because India is referred to as 'Hindustan'</p>	

ICAI SM

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 privates sector

ICAI SM

13

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

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

ICAI SM

14

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

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

ICAI SM

15

The strategy of agricultural development in India before green revolution was -

- a) High yielding varieties of seeds and chemical fertilizers to boost productivity
- b) Institutional reforms such as land reforms
- c) Technological up gradation of agriculture
- d) All the above

ICAI SM

16

The Industrial Policy Resolution (1948) aimed at -

- a) Market oriented economic reforms and opening up of economy
- b) A shift from state led industrialization to private sector led industrialisation
- c) an expanded role for the public sector and licensing to the private sector
- d) an expanded role of private sector a limited role of public sector

ICAI SM

17

The new economic policy of 1991 manifest in -

- a) State led industrialization and import substitution
- b) Rethinking the role of markets versus the state
- c) Emphasized the role of good governance
- d) Bringing about reduction in poverty and redistributive justice

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

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Answer Key – Chapter 10 – ICAI MCQs

1	C	6	B	11	B	16	C
2	B	7	A	12	B	17	B
3	C	8	D	13	D	18	B
4	A	9	A	14	C		
5	B	10	C	15	B		

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