

# INDEX

## Micro Economics - MCQs

Business Economics – MCQ Shastra				
Chp No.	Chapter Name	Approx Marks	ICAI SM MCQs	Extra MCQs
1	Nature & Scope of Business Economics	5 Marks	1.1 – 1.7	1.8 – 1.13
2	Theory of Demand & Supply	10 – 15 Marks	2.1 – 2.18	2.19 – 2.32
3	Theory of Production & Cost	10 – 15 Marks	3.1 – 3.13	3.14 – 3.21
4	Price Determination in Different Markets	15 Marks	4.1 – 4.13	4.14 – 4.26
5	Business Cycles	5 Marks	5.1 – 5.4	5.5 – 5.10
<b>Total</b>		<b>45-50 Marks</b>		

**Note:** Index of Macro Economics MCQs is given separately.

CA Foundation – June 2024  
Business Economics

# Chapter 1

## Nature & Scope of Business Economics

**ICAI SM MCQs**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



**Basic**

ICAI SM

1

**Economists regard decision making as important because**

- a) The resources required to satisfy our unlimited wants and needs are finite, or scarce.
- b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.
- c) Resources have alternative uses.
- d) All the above.

ICAI SM

2 **Business Economics is -**

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

ICAI SM

3 **In Economics, we use the term scarcity to mean -**

- a) Absolute scarcity and lack of resources in less developed countries.
- b) Relative scarcity i.e. scarcity in relation to the wants of the society.
- c) Scarcity during times of business failure and natural calamities.
- d) Scarcity caused on account of excessive consumption by the rich.

ICAI SM

4

**What implication(s) does resource scarcity have for the satisfaction of wants?**

- a) Not all wants can be satisfied.
- b) We will never be faced with the need to make choices.
- c) We must develop ways to decrease our individual wants.
- d) The discovery of new natural resources is necessary to increase our ability to satisfy wants.

ICAI SM

5

**Which of the following is a normative statement?**

- a) Planned economies allocate resources via government departments.
- b) Most transitional economies have experienced problems of falling output and rising prices over the past decade.
- c) There is a greater degree of consumer sovereignty in market economies than planned economies.
- d) Reducing inequality should be a major priority for mixed economies.

ICAI SM

6

**In every economic system, scarcity imposes limitations on**

- a) households, business firms, governments, and the nation as a whole.
- b) households and business firms, but not the governments.
- c) local and state governments, but not the federal government.
- d) households and governments, but not business firms.

ICAI SM	
7	Macroeconomics is also called--- economics
a) applied b) aggregate c) experimental d) none of the above.	

ICAI SM	
8	An example of 'positive' economic analysis would be:
a) an analysis of the relationship between the price of food and the quantity purchased. b) determining how much income each person should be guaranteed. c) determining the 'fair' price for food. d) deciding how to distribute the output of the economy.	

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

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

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

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

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



ICAI SM

14 The branch of economic theory that deals with the problem of allocation of resources is-

- a) Micro-Economic theory.
- b) Macro-economic theory.
- c) Econometrics.
- d) None of the above.

ICAI SM

15 Which of the following is not the subject matter of Business Economics?

- a) Should our firm be in this business?
- b) How much should be produced and at price should be kept?
- c) How will the product be placed in the market?
- d) How should we decrease unemployment in the economy?

ICAI SM

16 Which of the following is a normative economic statement?

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

ICAI SM

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

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

ICAI SM

18 The difference between positive and normative Economics is:

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

ICAI SM

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

- a) Capital Budgeting
- b) Risk Analysis
- c) Business Cycles
- d) Accounting Standards

ICAI SM

20 Which of the following statements is incorrect?

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



ICAI SM

21 Economic goods are considered scarce resources because they.

- a) cannot be increased in quantity.
- b) do not exist in adequate quantity to satisfy the requirements of the society.
- c) are of primary importance in satisfying social requirements.
- d) are limited to man made goods.

ICAI SM

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

- a) voting done by consumers.
- b) a central planning authority.
- c) consumer preferences.
- d) the level of profits of firms.

ICAI SM

23 A capitalist economy uses \_\_\_\_\_ as the principal means of allocating resources.

- a) demand
- b) supply
- c) efficiency
- d) prices

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

26 In a mixed economy -

- a) all economic decisions are taken by the central authority.
- b) all economic decisions are taken by private entrepreneurs.
- c) economic decisions are partly taken by the state and partly by the private entrepreneurs.
- d) none of the above.

ICAI SM

27 The central problem in economics is that of

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

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ICAI SM	
28	Capital intensive technique would get chosen in a
a) labour surplus economy where the relative price of capital is lower. b) capital surplus economy where the relative price of capital is lower. c) developed economy where technology is better. d) developing economy where technology is poor.	

ICAI SM	
29	Which of the following is not one of the four central questions that the study of economics is supposed to answer?
a) Who produces what? b) When are goods produced? c) Who consumes what? d) How are goods produced?	

ICAI SM	
30	Larger production of _ _ goods would lead to higher production in future.
a) consumer goods b) capital goods c) agricultural goods d) public goods	

ICAI SM	
31	The economic system in which all the means of production are owned and controlled by private individuals for profit.
a) Socialism b) Capitalism c) Mixed economy d) Communism	

ICAI SM	
32	Macro Economics is the study of _____
a) all aspects of scarcity. b) the national economy and the global economy as a whole. c) big businesses. d) the decisions of individual businesses and people.	

ICAI SM	
33	Freedom of choice is the advantage of -
a) Socialism b) Capitalism c) Communism d) None of the above	

ICAI SM	
34	Exploitation and inequality are minimal under:
a) Socialism b) Capitalism c) Mixed economy d) None of the above	

ICAI SM	
35	Administered prices refer to:
a) Prices determined by forces of demand and supply b) Prices determined by sellers in the market c) Prices determined by an external authority which is usually the government d) None of the above	

ICAI SM	
36	In Economics, the central economic problem means:
a) Output is restricted to the limited availability of resources b) Consumer do not have as much money as they would wish c) There will always be certain level of unemployment d) Resources are not always allocated in an optimum way	

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ICAI SM

37

**Scarcity definition of Economics is given by-**

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

ICAI SM

38

**The definition "Science which deals with wealth of Nation" was given by:**

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

ICAI SM

39

**Which of the following is not one of the features of capitalist economy?**

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

ICAI SM

40

**There is need of economic study, because -**

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

ICAI SM

41

**study is -**

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

ICAI SM

42

**The managerial economics -**

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

ICAI SM

43

**Which of the following statements is correct?**

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

ICAI SM

44

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

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

ICAI SM

45

**Profit motive is a merit of**

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

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ICAI SM	
46	_____ is also called as command economy
a) Socialist b) Capitalist c) Mixed economy d) None of the above	

ICAI SM	
48	Unlimited ends and limited means together present the problem of _____.
a) Scarcity of resources b) Choice c) Distribution d) None of the above	

ICAI SM	
47	Which of the following statements is/are correct regarding business economics?
a) Business economics attempts to indicate how business policies are firmly rooted in economic principles. b) Business economics uses micro economic analysis of the business unit and macro economic analysis of business environment. c) Business economics takes a pragmatic approach towards facilitating an integration between economic theory and business practices. d) All the above.	

**Answer Key – Chapter 1 (unit – 2)**

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

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CA Foundation – June 2024  
Business Economics

**Chapter 1**  
**Nature & Scope of Business**  
**Economics**

**Extra MCQs for Practice**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



A.Q., MTP Apr 23

1 In the beginning the name of economics was \_\_\_\_\_

- a) Economics of wealth
- b) Political economy
- c) Welfare economics
- d) None of these

MTP Mar 18

2 Economics is a Science which deals with wealth' was referred by

- a) Alfred Marshal
- b) J.B. Say
- c) Adam Smith
- d) A.C. Pigou.

A.Q.

3 Which of the following is/are limitation(s) of the wealth definitions of economics given by classical economists?

- a) By considering the problem of production distribution & exchange of wealth, they focused attention on important issues with which economics is concerned.
- b) By restricting the definition of wealth to material wealth & the neglect of immaterial services, they narrowed down the scope of economics.
- c) Both (A) and (B)
- d) None of these

MTP Dec 22, A.Q.

4 "If Americans today, for example were to content to live at the level of the Indian middle class people, all their wants would be fully satisfied with their available resources and capacity to produce."  
On the basis of the above statement, which of the following conclusion can be made?

- a) The possession of goods and services by USA has enormously increased to exceed their wants.
- b) The affluent and developed countries of USA and Western Europe face the problem of scarcity even today as their present wants remain a head of their increased resources and capacity to produce.
- c) The affluent and developed countries are not facing the problem of scarcity.
- d) None of these

MTP Dec 22, A.Q.

5 Economics is a branch of \_\_\_\_\_ focused on the production, distribution and consumption of goods and services.

- a) Natural science
- b) Physical science
- c) Social science
- d) None of these

MTP Nov 22, MTP Aug 18, MTP Oct 20

6 \_\_\_\_\_ expressed the view the "Economics is neutral between end".

- a) Robbins
- b) Marshall
- c) Pigou
- d) Adam Smith

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MTP Jun 22

7 Most of the economic problems are of \_\_\_\_\_ nature and are affected by \_\_\_\_\_

- a) Complex, Several forces
- b) Simple, Several forces
- c) Simple, single factor
- d) Complex, Single factor

MTP Nov 22

8 Which of the following statements is true?

- a) The study of economics ensures that all problems will be appropriately tackled.
- b) The study of economics cannot ensure that all problems will be appropriately tackled.
- c) The study of economics does not enable a student to examine a problem in its right perspective.
- d) None of these

PYQ Jun 23

9 Economic is classified into \_\_\_\_\_

- a) Normative and positive
- b) Micro and macro
- c) Internal and external
- d) None of the above

A.Q.

10 Which of the following statements is correct?

- a) Employment and economic growth are studied in micro-economics.
- b) Micro economics deals with balance of trade
- c) Economic condition of a section of the people is studied in micro-economics
- d) External value of money is dealt with in micro-economics

MTP Mar 18

11 When we study why saving rates are high or low, we are studying :

- a) Macro Economics
- b) Micro Economics
- c) Econometrics
- d) Both (a) and (b)

PYQ Jun 22, Jun 23

12 Which of the following is not a subject matter of micro economics ?

- a) Behaviour of firms
- b) Location of industry
- c) Consumer behaviour
- d) Foreign exchange rate

MTP Nov 22, A.Q.

13 \_\_\_\_\_ is concerned with welfare Proposition

- a) Normative Economics
- b) Positive Economics
- c) Both (A) and (B)
- d) None of these

A.Q.

14 Business economics is \_\_\_\_\_ in its Approach

- a) Idealistic
- b) Pragmatic
- c) Both (A) and (B)
- d) None of these

A.Q.

15 "Generally a business manager is concerned with problems of his own business units. He does not study the economic problems of an economy as a whole. "State whether the above statement is \_\_\_\_\_

- a) True
- b) False
- c) Partly True
- d) Partly False

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MTP Aug 18, MTP May 20

16 Which of the following statements would you consider to be a normative one?

- a) Faster economic growth should result if an economy has a higher level of investment.
- b) Changing the level of interest rates is a better way of managing the economy than using taxation and government expenditure.
- c) Higher levels of unemployment will lead to higher levels of inflation.
- d) The average level of growth in the economy was faster in the 1990s than the 1980s

MTP Mar 22, Dec 22

17 Taxation involves which aspects of normative economics:

- a) Incidence
- b) Fairness
- c) Incentive to work
- d) All of the above

MTP Nov 22.

18 Business economics is \_\_\_\_\_

- a) science
- b) An art
- c) Both science and art
- d) None of these

PYQ Jun 23

19 Which of the following refers to the sum total of arrangements for the product and distribution of goods and services in society?

- a) Economic system
- b) Business system
- c) Capitalist economic system
- d) Socialist economic system

A.Q.

20 "A wise individual or a society likes to provide for its growth of productive capacity." This requires that a part of its resources should be devoted to the production of \_\_\_\_\_

- a) Consumer goods
- b) Capital goods
- c) Defense goods
- d) None of these

MTP Dec 22

21 The problem of "what to produce" relate to

- a) The choice of goods and service
- b) Distribution of income
- c) The choice of technique
- d) None of these

MTP Nov 22, MTP Apr 19, Oct 20,

22 Which of the following is not one of the features of capitalist economy?

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

MTP Jun 22, MTP Nov 22

23 The regulatory mechanism of the market system is-

- a) Self interest
- b) Private property
- c) Competition
- d) Specialization

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A.Q.

24 If there is no central planning authority to make the fundamental economic decisions and thus to allocate productive resources, how can then free enterprise or capitalist economy solve its central problems?

- Through the power of God
- On the basis of decision taken by industrial groups.
- The free market economy uses the impersonal forces of the market to solve its central problems
- None of these

A.Q.

25 The industrialization and economic development of the USA, Great Britain and other Western European countries have taken place under the condition of\_\_?

- Socialism and planned structure
- Capitalism and laissez faire
- Mixed economic structure
- None of these

MTP Dec 22

26 The Characteristic of capitalist economics does not include?

- Right to Private property
- Freedom of economic choice
- Absence of Consumer choice
- Competition

PYQ Jun 22

27 Which of the following economic system is self regulating and run by invisible hands ?

- Mixed economic system
- Socialistic economic system
- Capitalist economic system
- Planned economic system

PYQ Jun 22

28 In a socialist \_\_\_\_ economy the allocation of resources is done by

- Market Price
- Consumer preferences
- A central planning authority
- The level of corporate profits

MTP Dec 22, A

29 A socialist economy is a system of production where goods and services are produced \_\_\_\_\_

- to generate profit
- directly for use
- Both (A) and (B)
- None of these

A.Q.

30 Which of the following is not a merit of socialist economy?

- It provides equal access to health care and education
- Workers are no longer exploited because they own the means of production
- Profits are not spread equitably among all workers according to their individual contributions.
- Natural resources are preserved for the good of the whole

MTP Mar 19

31 Which economy is now a myth only, as no country in the world is having that type of economy?

- Capitalist Economy
- Socialist Economy
- Mixed Economy
- None of the above

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A.Q.

32 Which of the following statements is/are correct about mixed economic system?

- a) Mixed economic system depends on both markets and governments for allocation of resources
- b) Mixed economy is not always a golden path between capitalism and socialism.
- c) It is very difficult to maintain a proper balance between private and public sectors.
- d) All of the above

Extra MCQs

33 Which of the following statements is correct?

- a) In a two-good economy, the production possibilities frontier reflects the maximum amount of one good that can be produced when a given amount of the other good is produced.
- b) Microeconomics is the study of the behavior of the economy as a whole.
- c) Positive economics focuses on welfare of the people of a society
- d) None of the above

Extra MCQs

34 Which of the following statement is correct?

- a) Mixed economy is not always a 'golden path' between capitalistic and socialistic economy
- b) Socialistic economy is not always a 'golden path' between mixed economy and capitalism
- c) Capitalistic economy is not always a 'golden path' between mixed economy and socialism
- d) Local economy is not always a 'golden path' between internal and international economy

35 Capitalist system offers incentives for \_\_\_\_\_

- a) Efficient business decisions
- b) Efficient government decisions
- c) Efficient non-governmental decisions
- d) Efficient economic decisions

MTP May 23

36 The 'Communist Manifesto' was published in:

- a) 1848
- b) 1905
- c) 1952
- d) None of these.

PYQ Jun 23

37 Encourage enterprise and risk taking is considered as a merit of which of the following economy?

- a) Social economy
- b) Political Economy
- c) Mixed Economy
- d) Managerial economy

PYQ Jun 22

38 \_\_\_\_\_ involves the predominance of bureaucracy and resulting inefficiencies and delays

- a) Socialistic economy
- b) Capitalist economy
- c) Mixed economy
- d) Free market economy

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## Answer Key - Economics Chapter 1

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

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CA Foundation – June 2024  
Business Economics

**Chapter 2**  
**THEORY OF DEMAND**  
**AND SUPPLY**

**ICAI SM MCQs**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR





UNIT 3

Basic

ICAI SM

1 Demand for a commodity refers to:

- a) desire backed by ability to pay for the commodity.
- b) need for the commodity and willingness to pay for it
- c) the quantity demanded of that commodity at a certain price.
- d) the quantity of the commodity demanded at a certain price during any particular period of time.

ICAI SM

2 Contraction of demand is the result of:

- a) decrease in the number of consumers.
- b) increase in the price of the good concerned.
- c) increase in the prices of other goods.
- d) decrease in the income of purchasers.

ICAI SM

3 All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?

- a) The preference of the individual.
- b) His monetary income.
- c) Price of the commodity
- d) Price of related goods.

ICAI SM

4 Which of the following pairs of goods is an example of substitutes?

- a) Tea and sugar.
- b) Tea and coffee.
- c) Pen and ink.
- d) Shirt and trousers.

ICAI SM

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

- a) 0
- b) 1
- c) 1.5
- d) 2

ICAI SM

6 The Law of Demand, assuming other things to remain constant, establishes the relationship between:

- a) income of the consumer and the quantity of a good demanded by him.
- b) price of a good and the quantity demanded.
- c) price of a good and the demand for its substitute.
- d) quantity demanded of a good and the relative prices of its complementary goods.

ICAI SM

7 Identify the factor which generally keeps the price-elasticity of demand for a good low:

- a) Variety of uses for that good.
- b) Very low price of a commodity
- c) Close substitutes for that good.
- d) High proportion of the consumer's income spent on it.

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ICAI SM	
8	Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:
a) Equal to one. b) Greater than one. c) Less than one. d) Zero.	

ICAI SM	
9	In the case of an inferior good, the income elasticity of demand is:
a) positive. b) Zero. c) Negative. d) infinite.	

ICAI SM	
10	If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:
a) Remain the same. b) Increase. c) Decrease. d) Any of these.	

ICAI SM	
11	If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
a) horizontal. b) Vertical. c) positively sloped. d) negatively sloped.	

ICAI SM	
12	Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:
a) Shift towards left since these are substitutes b) Shift towards right since these are substitutes c) Remain at the same level d) None of the above	

ICAI SM	
13	All of the following are determinants of demand except:
a) Tastes and preferences. b) Quantity supplied. c) Income of the consumer d) Price of related goods.	

ICAI SM	
14	A movement along the demand curve for soft drinks is best described as:
a) An increase in demand. b) A decrease in demand. c) A change in quantity demanded. d) A change in demand.	

ICAI SM	
15	If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for:
a) Coke will decrease. b) 7-Up will decrease. c) Coke and 7-UP will increase. d) Coke and 7-Up will decrease.	

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

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## ICAI SM

17

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

- a) Elastic.
- b) Inelastic.
- c) Unitarily elastic.
- d) Perfectly elastic.

## ICAI SM

18

If the quantity demanded of mutton increases by 5% when the price of chicken increases by 20%, the cross-price elasticity of demand between mutton and chicken is

- a) -0.25
- b) 0.25
- c) -4
- d) 4

## ICAI SM

19

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

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

20

Which of the following statements about price elasticity of supply is correct?

- a) Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good
- b) Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price
- c) Price elasticity of supply in the long run would be different from that of the short run
- d) All the above

21

Which of the following is incorrect statement?

- a) When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes.
- b) When complementary commodities, a fall in the price of one (other things being equal) cause the demand of the other to rise
- c) As the income of the consumer increases, the demand for a commodity increases always vice versa.
- d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases

## ICAI SM

22

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

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

## ICAI SM

23

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

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





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

ICAI SM	
25	If the local pizzeria raises the price of a medium pizza from Rs.60 to Rs.100 and quantity demanded falls from 700 pizzas a night to 100 pizzas a night, the price elasticity of demand for pizzas is : (Use Arc Elasticity Method)
<p>a) .67</p> <p>b) 1.5</p> <p>c) 2.0</p> <p>d) 3.0</p>	

ICAI SM	
26	If electricity demand is inelastic, and electricity charges increase, which of the following is likely to occur?
<p>a) Quantity demanded will fall by a relatively large amount.</p> <p>b) Quantity demanded will fall by a relatively small amount.</p> <p>c) Quantity demanded will rise in the short run, but fall in the long run.</p> <p>d) Quantity demanded will fall in the short run, but rise in the long run.</p>	

ICAI SM	
27	Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
<p>a) Large fall in quantity demanded.</p> <p>b) Large fall in demand.</p> <p>c) Small fall in quantity demanded.</p> <p>d) Small fall in demand.</p>	

ICAI SM	
28	Point elasticity is useful for which of the following situations?
<p>a) The bookstore is considering doubling the price of notebooks.</p> <p>b) A restaurant is considering lowering the price of its most expensive dishes by 50 percent.</p> <p>c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by Rs.100.</p> <p>d) None of the above.</p>	

ICAI SM	
29	A decrease in price will result in an increase in total revenue if:
<p>a) The percentage change in quantity demanded is less than the percentage change in price.</p> <p>b) The percentage change in quantity demanded is greater than the percentage change in price.</p> <p>c) Demand is inelastic.</p> <p>d) The consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.</p>	

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ICAI SM	
30	An increase in price will result in an increase in total revenue if:
a) The percentage change in quantity demanded is less than the percentage change in price. b) The percentage change in quantity demanded is greater than the percentage change in price. c) Demand is elastic. d) The consumer is operating along a linear demand curve at a point at which the price is very high and the quantity demanded is very low.	

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

ICAI SM	
32	Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?
a) The good has many substitutes. b) The good is a luxury (as opposed to a necessity). c) The good is a small part of the consumer's income. d) There is a great deal of time for the consumer to adjust to the change in prices.	

ICAI SM	
33	Suppose a consumer's income increases from Rs.30,000 to Rs.36,000. As a result, the consumer increases her purchase of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer income elasticity of demand for CDs? (Use Arc Elasticity Method)
a) 0.5 b) 1.0 c) 1.5 d) 2.0	

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

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

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

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ICAI SM

37

Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same?

- a) Supply curve will shift to the left.
- b) Supply curve will shift to the right.
- c) Supply will not shift, but the quantity of cars produced per month will decrease.
- d) Supply will not shift, but the quantity of cars produced per month will increase.

ICAI SM

38

Which of the following statements is incorrect?

- a) An indifference curve must be downward-sloping to the right.
- b) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
- c) The income elasticity for inferior goods to a consumer is positive.
- d) The total effect of a change in the price of a good on its quantity demanded is called the price effect.

ICAI SM

39

The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of

- a) Operation of the law of demand.
- b) Consumer surplus enjoyed in hobbies and rare collections
- c) Exception to the law of diminishing utility.
- d) None of the above

ICAI SM

40

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

- a) The demand for rice will increase and the demand curve will shift to the right
- b) The demand for rice will decrease and the demand curve will shift to the left
- c) The demand for rice will be unaffected as it is a necessity
- d) The demand for wheat will increase and the demand curve will shift to the right

ICAI SM

41

In the case of a Giffen good, the demand curve will usually be:

- a) horizontal.
- b) downward-sloping to the right.
- c) vertical.
- d) upward-sloping to the right

ICAI SM

42

By consumer surplus, economists mean

- a) The area inside the budget line above the price of the commodity
- b) The area between the average revenue and marginal revenue curves.
- c) The difference between the maximum amount that a person is willing to pay for a good and its market price.
- d) The difference between the market price and the supply curve

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## ICAI SM

43 Which of the following is a property of an indifference curve?

- a) It is convex to the origin due to diminishing marginal rate of substitution
- b) The marginal rate of substitution is constant as you move along an indifference curve.
- c) Marginal utility is constant as you move along an indifference curve.
- d) Total utility is greatest where the budget line cuts the indifference curve.

## ICAI SM

44 When economists speak of the utility of a certain good, they are referring to

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

## ICAI SM

45 A vertical supply curve parallel to Y axis implies that the elasticity of supply is:

- a) Zero
- b) Infinity
- c) Equal to one
- d) Greater than zero but less than infinity.

## ICAI SM

46 For a normal good with a downward sloping demand curve

- a) The price elasticity of demand is negative; the income elasticity of demand is negative.
- b) The price elasticity of demand is positive; the income elasticity of demand is negative.
- c) The price elasticity of demand is positive; the income elasticity of demand is positive.
- d) The price elasticity of demand is negative; the income elasticity of demand is positive.

## ICAI SM

47 An increase in the supply of a good is caused by:

- a) Improvements in its production technology
- b) Fall in the prices of other goods which can be produced using same inputs.
- c) Fall in the prices of factors of production used in its production
- d) all of the above.

## ICAI SM

48 Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:

- a) Demand.
- b) Price.
- c) Cost of production.
- d) State of technology.

## ICAI SM

49 A horizontal supply curve parallel to the quantity axis implies that the elasticity of supply is:

- a) Zero.
- b) Infinite.
- c) Equal to one.
- d) Greater than zero but less than one.

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ICAI SM	
50	Contraction of supply is the result of:
a) Decrease in the number of producers. b) Decrease in the price of the good concerned. c) Increase in the prices of other goods. d) Decrease in the outlay of sellers.	

ICAI SM	
51	Conspicuous goods are also known as
a) Prestige goods b) Snob goods c) Veblen goods d) All of the above	

ICAI SM	
52	The quantity purchased remains constant irrespective of the change in income. This is known as
a) negative income elasticity of demand b) income elasticity of demand less than one c) zero income elasticity of demand d) income elasticity of demand is greater than one	

ICAI SM	
53	As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means inferior goods have
a) income elasticity of demand less than one b) negative income elasticity of demand c) zero income elasticity of demand d) unitary income elasticity of demand	

ICAI SM	
54	When income increases the money spent on necessities of life may not increase in the same proportion. This means
a) income elasticity of demand is zero b) income elasticity of demand is one c) income elasticity of demand is greater than one d) income elasticity of demand is less than one	

ICAI SM	
55	The luxury goods like jewellery and fancy articles will have
a) low income elasticity of demand b) high income elasticity of demand c) zero income elasticity of demand d) none of the above	

ICAI SM	
56	A good which cannot be consumed more than once is known as
a) Durable good b) Non-durable good c) Producer good d) None of the above	

ICAI SM	
57	A relative price is
a) price expressed in terms of money b) what you get paid for babysitting your cousin c) the ratio of one money price to another d) equal to a money price	

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ICAI SM	
58	A point below the budget line of a consumer
a) Represents a combination of goods which costs the whole of consumer's income b) Represents a combination of goods which costs less than the consumer's income c) Represents a combination of goods which is unattainable to the consumer given his/her money income d) Represents a combination of goods which costs more than the consumers' income	

ICAI SM	
59	Demand is the
a) the desire for a commodity given its price and those of related commodities b) the entire relationship between the quantity demanded and the price of a good other things remaining the same c) willingness to pay for a good if income is larger enough d) ability to pay for a good	

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

ICAI SM	
61	The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are
a) Normal goods b) Complements c) Substitutes d) Inferior goods	

ICAI SM	
62	Chicken and fish are substitutes. If the price of chicken increases, the demand for fish will
a) Increase or decrease but the demand curve for chicken will not change b) Increase and the demand curve for fish will shift rightwards. c) Not change but there will be a movement along the demand curve for fish. d) Decrease and the demand curve for fish will shift leftwards.	

ICAI SM	
63	Potato chips and popcorn are substitutes. A rise in the price of potato chips will ----- the demand for popcorn and the quantity of popcorn sold will -----
a) increase; increase b) increase; decrease c) decrease; decrease d) decrease; increase	

ICAI SM	
64	If the price of orange Juice increases, the demand for apple Juice will .
a) increase because they are substitutes b) decrease because they are substitutes c) remain the same because real income is increased d) decrease as real income decreases	

ICAI SM	
65	An increase in the demand for computers, other things remaining same, will:
a) Increase the number of computers bought. b) Decrease the price but increase the number of computers bought. c) Increase the price of computers. d) Increase the price and number of computers bought.	





ICAI SM	
66	When total demand for a commodity whose price has fallen increases, it is due to:
a) Income effect. b) Substitution effect c) Complementary effect d) Price effect	

ICAI SM	
67	With a fall in the price of a commodity:
a) Consumer's real income increases b) Consumer's real income decreases c) There is no change in the real income of the consumer d) None of the above	

ICAI SM	
68	With an increase in the price of diamond, the quantity demanded also increases. This is because it is a:
a) Substitute good b) Complementary good c) Conspicuous good d) None of the above	

ICAI SM	
69	An example of goods that exhibit direct price-demand relationship is
a) Giffen goods b) Complementary goods c) Substitute goods d) None of the above	

ICAI SM	
70	In Economics, when demand for a commodity increases with a fall in its price it is known as:
a) Contraction of demand b) Expansion of demand c) No change in demand d) None of the above	

ICAI SM	
71	The quantity supplied of a good or service is the amount that
a) is actually bought during a given time period at a given price b) producers wish they could sell at a higher price c) producers plan to sell during a given time period at a given price d) people are willing to buy during a given time period at a given price	

ICAI SM	
72	Supply is the
a) limited resources that are available with the seller b) cost of producing a good c) entire relationship between the quantity supplied and the price of good. d) Willingness to produce a good if the technology to produce it becomes available	

ICAI SM	
73	In the book market, the supply of books will decrease if any of the following occurs except
a) a decrease in the number of book publishers b) a decrease in the price of the book c) an increase in the future expected price of the book d) an increase in the price of paper used.	

ICAI SM	
74	If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is :
a) 2.5 b) 0.4 c) (-) 2.5 d) (-) 0.4	

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ICAI SM

75

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

- a) The price of a bike
- b) Demand for bikes
- c) The supply of bikes
- d) Demand for helmets

ICAI SM

76

If the supply of bottled water decreases, other things remaining the same, the equilibrium price – \_\_\_\_\_ and the equilibrium quantity \_\_\_\_\_

- a) increases; decreases
- b) decreases; increases
- c) decreases; decreases
- d) increases; increases

ICAI SM

77

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

- a) Increase the number of cameras bought
- b) Decrease the price but increase the number of cameras bought
- c) Decrease in quantity of camera demanded
- d) Decrease the price and decrease in the number of cameras bought.

ICAI SM

78

Which of the following statements about inferior goods is/are false?

- i. Inferior goods are those that we will never buy, no matter how cheap they are.
- ii. Inferior goods are those that we buy more of, if we become poorer.
- iii. Inferior goods are those that we buy more of, if we become richer.

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

79

Comforts lie between

- a) inferior goods and necessities
- b) luxuries and inferior goods
- c) necessities and luxuries
- d) none of the above

ICAI

80

In a very short period, the supply

- a) can be changed
- b) can not be changed
- c) can be increased
- d) none of the above

81

When supply curve moves to left, it means

- a) lesser quantity is supplied at a given price
- b) larger quantity is supplied at a given price
- c) prices have fallen and quantity supplied at a lower price
- d) none of the above

ICAI

82

When supply curve moves to right it means

- a) supply increases and more quantity is supplied at a given price
- b) supply decreases and less quantity supplied at a given price
- c) supply remains constant at a given price
- d) none of the above

83

The elasticity of supply is defined as the

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

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ICAI SM

84

Elasticity of supply is measured by dividing the percentage change in quantity supplied of a good by —

- Percentage change in income
- Percentage change in quantity demanded of goods
- Percentage change in price
- Percentage change in taste and preference

ICAI SM

85

Elasticity of supply is zero means

- perfectly inelastic supply
- perfectly elastic supply
- imperfectly elastic supply
- none of the above

ICAI SM

86

Elasticity of supply is greater than one when

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

ICAI SM

87

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

- Less than one
- Greater than one
- One
- None of the above

ICAI SM

88

The price of a commodity decreases from Rs.6 to Rs.4 and the quantity demanded of the good increases from 10 units to 15 units. Find the coefficient of price elasticity.

- 1.5
- 2.5
- 1.5
- 0.5

ICAI SM

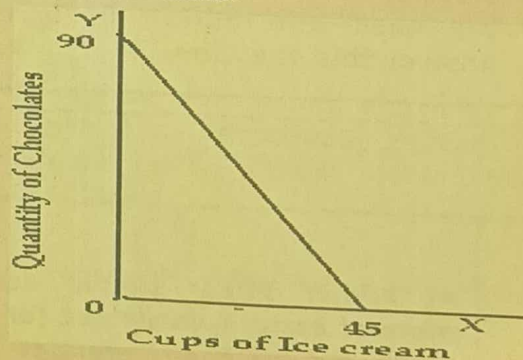
89

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

- 4
- 3
- 5
- 3

ICAI SM

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



The prices of these two commodities respectively are:

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

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ICAI SM	
91	'No matter what the price of coffee is, Arjun always spend a total of exactly 100 per week on coffee.' The statement implies that:
a) Arjun is very fond of coffee and therefore he has an inelastic demand for coffee b) Arjun has elastic demand for coffee c) Arjun's demand for coffee is relatively less elastic d) Arjun's demand for coffee is unit elastic	

ICAI SM	
92	A firm learns that the own price elasticity of a product it manufactures is 3.5. What would be the correct action for this firm to take if it wishes to raise its total revenue?
a) Lower the price because demand for the good is elastic. b) Raise the price because demand for the product is inelastic. c) Raise the price because demand is elastic. d) We need information in order to answer this question.	

ICAI SM	
93	At higher prices people demand more of certain goods not for their worth but for their prestige value – This is called
a) Veblen effect b) Giffens paradox c) Speculative effect d) None of the above	

ICAI SM	
94	If the price of air-conditioning increases from Rs.30,000 to Rs.30,010 and resultant change in demand is negligible, we use _____ measure of _____ measure elasticity.
a) Point elasticity of demand since it is a small change b) Arc elasticity of demand since it is a small change c) Price elasticity based on average prices method d) Any of the above	

ICAI SM	
95	Given the following possibilities, which one will result in an increase in total expenditure of the consumer?
a) Demand is unit elastic and price rises b) Demand is elastic and price rises c) Demand is inelastic and price falls d) demand is inelastic and price rises	

ICAI SM	
96	The supply curve shifts to the right because of _____
a) improved technology b) increased price of factors of production c) increased excise duty d) all of the above	

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

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

ICAI SM	
99	The supply curve for highly perishable commodities during very short period is generally --
a) Elastic b) Inelastic c) Perfectly elastic d) Perfectly inelastic	

ICAI SM	
100	Supply is a _____ concept.
a) Stock b) Flow and stock c) Flow d) None of the above	

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

ICAI SM	
102	The cross elasticity between personal computers and soft wares is:
a) Positive b) Zero c) Negative d) One	

ICAI SM	
103	The cross elasticity between Bread and DVDs is:
a) Positive b) Negative c) Zero d) One	

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

ICAI SM	
105	Suppose the income elasticity of education in private school in India is 3.6. What does this indicate:
a) Private school education is highly wanted by rich b) Private school education is a necessity. c) Private school education is a luxury. d) We should have more private schools.	

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ICAI SM

106

If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is;

- a) The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
- b) The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold
- c) The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
- d) (a) and (c) above are true

ICAI SM

107

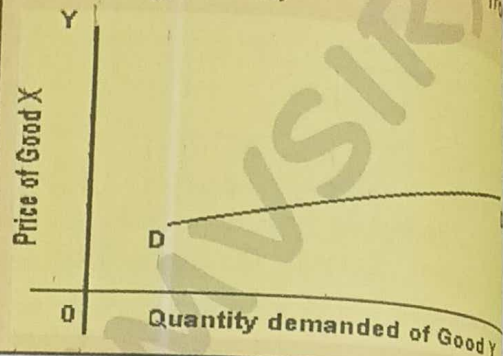
Data on production of vegetables for the past two years showed that, despite stable prices, there is a substantial decline in output of cabbage leading to lower supply into the market. Which of the following can possibly be the reason?

- a) An increase in the price of cauliflower which is equally preferred by consumers
- b) Announcement of a subsidy by government on vegetable production
- c) More farmers producing cabbage and the increasing competition among them
- d) A substantial decrease in the price of capsicum

ICAI SM

108

The following diagram shows the relationship between price of Good X and quantity demanded of Good Y. What we infer from the diagram is;

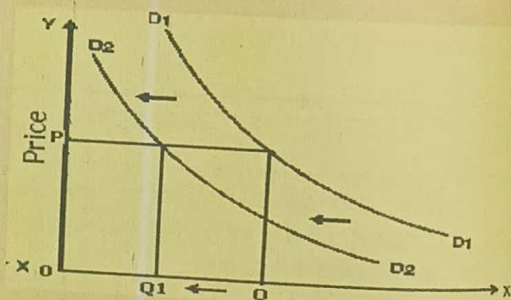


- a) Good X and Good Y are perfect complements
- b) Good X and Good Y are perfect substitutes
- c) Good X and Good Y are remote substitutes
- d) Good X and Good Y are close substitutes

ICAI SM

109

The diagram given below shows



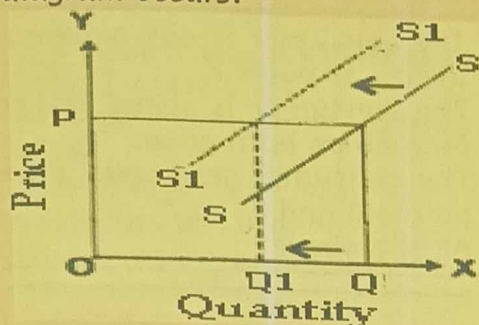
- a) A change in demand which may be caused by a rise in income and the good is a normal good
- b) A shift of demand curve caused by a fall in the price of a complementary good
- c) A change in demand which is caused by a rise in income and the good is an inferior good
- d) A shift of demand curve caused by a rise in the price of a substitute and the good is a normal good.

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ICAI SM

Which of the following alternatives would be true if the event presented in the following diagram occurs?



110

- a) A fall in wage costs of the firm along with a fall in consumer incomes
- b) A shortage of raw materials and consequent increase in raw material price
- c) An increase in subsidy by the government and a reduction in taxes
- d) Decrease in the market price of the commodity in question

ICAI SM

112

If roller-coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls

- a) The demand for roller-coaster rides will rise and the demand curve will shift to right
- b) The demand for roller coaster ride cannot be predicted as it depends on the tastes of consumers for the ride
- c) There will be an expansion in the demand for roller coaster drive as it complementary
- d) None of the above

ICAI SM

111

The demand curve of a normal good has shifted to the right. Which of the four events would have caused the shift?

- a) A fall in the price of a substitute with the price of the good unchanged
- b) A fall in the nominal income of the consumer and a fall in the price of the normal good
- c) A fall in the price of a complementary good with the price of the normal good unchanged
- d) A fall in the price of the normal good, other things remaining the same

ICAI SM

113

If a short run supply curve is plotted for the following table which presents price and quantity of fighter aircrafts, what will be its shape?

Price in millions of \$	Number of Aircrafts
124	28
140	28
150	28
160	28
175	28

- a) Horizontal straight line parallel to the quantity axis
- b) Steeply rising with elasticity less than one
- c) Vertical straight line parallel to Y axis
- d) A perfectly elastic supply curve

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ICAI SM

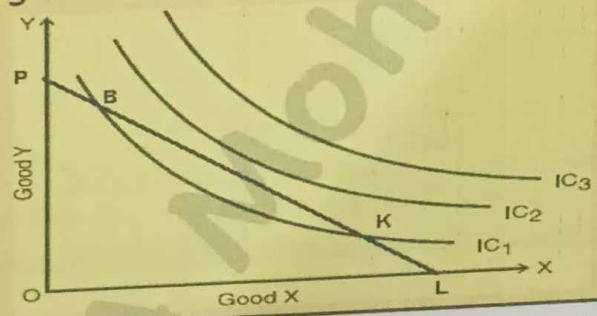
114 The average income of residents of two cities A and B and the corresponding change in demand for two goods is given in the following table. Which of the following statements is true?

City	%Incr In Inco me	% change in dem and for Good X	% change in demand for Good Y
A	12	6.5	- 2.3
B	9	5.6	1.6

- a) Both goods are normal goods in both cities A and B
- b) Good X is a normal good in both cities; good Y is an inferior good in city A
- c) Good X is a normal good in both cities; good Y is an inferior good in city B
- d) Need more information to make an accurate comment

ICAI SM

115 If this consumer is spending her entire income and consuming at point B, what advise will you give her?



- a) No advise needed, as she is maximizing her utility at B
- b) Consume more of Good X and less of Good Y
- c) Consume more of X and less of Y and reach point K
- d) Consume same quantity of Good Y and more of Good X

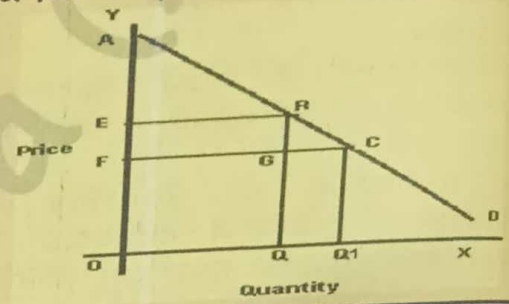
ICAI

116 Which of the following statements is true about the consumer?

- a) The consumer is not maximizing utility at point K
- b) The consumer is spending her entire income on both goods
- c) The consumer gets equal pleasure at points B and K
- d) All the above

ICAI S

117 The effect on consumer surplus a fall in price from E to F is



- a) A decrease in consumer surplus EFGR
- b) A decrease in consumer surplus AER
- c) A decrease in consumer surplus EFCR
- d) None of the above

ICAI S

118 When price rises from F to E, the increase in revenue earned by the seller is

- a) Equivalent to area EFGR
- b) Equivalent to area EFCR
- c) Equivalent to area AER
- d) None of the above





ICAI SM

119 How would that budget line be affected if the price of both goods fell?

a) The budget line would not shift.  
 b) The new budget line must be parallel to the old budget line.  
 c) The budget line must be shifting to the left  
 d) The new budget line will have the same slope as the original so long as the prices of both goods change in the same proportion.

ICAI SM

120 During a recession, economies experience increased unemployment and a reduced level of income. How would a recession likely to affect the market demand for new cars?

a) Demand curve will shift to the right.  
 b) Demand curve will shift to the left.  
 c) Demand will not shift, but the quantity of cars sold per month will decrease.  
 d) Demand will not shift, but the quantity of cars sold per month will increase.

Answer Key – Chapter 2 (unit – 3)

1.	(d)	2.	(b)	3.	(c)	4.	(b)	5.	(b)	6.	(b)
7.	(b)	8.	(c)	9.	(c)	10.	(b)	11.	(b)	12.	(b)
13.	(b)	14.	(c)	15.	(d)	16.	(c)	17.	(a)	18.	(b)
19.	(d)	20.	(d)	21.	(c)	22.	(b)	23.	(c)	24.	(c)
25.	(d)	26.	(b)	27.	(a)	28.	(c)	29.	(b)	30.	(a)
31.	(b)	32.	(c)	33.	(b)	34.	(a)	35.	(c)	36.	(a)
37.	(a)	38.	(c)	39.	(c)	40.	(a)	41.	(d)	42.	(c)
43.	(a)	44.	(c)	45.	(a)	46.	(d)	47.	(d)	48.	(b)
49.	(b)	50.	(b)	51.	(d)	52.	(c)	53.	(b)	54.	(d)
55.	(b)	56.	(b)	57.	(c)	58.	(b)	59.	(b)	60.	(c)
61.	(c)	62.	(b)	63.	(a)	64.	(a)	65.	(d)	66.	(d)
67.	(a)	68.	(c)	69.	(a)	70.	(b)	71.	(c)	72.	(c)
73.	(b)	74.	(a)	75.	(c)	76.	(a)	77.	(c)	78.	(a)
79.	(c)	80.	(b)	81.	(a)	82.	(a)	83.	(a)	84.	(c)
85.	(a)	86.	(a)	87.	(c)	88.	(a)	89.	(d)	90.	(b)
91.	(d)	92.	(a)	93.	(a)	94.	(a)	95.	(d)	96.	(a)
97.	(d)	98.	(a)	99.	(d)	100.	(c)	101.	(a)	102.	(c)
103.	(c)	104.	(b)	105.	(c)	106.	(b)	107.	(a)	108.	(d)
109.	(c)	110.	(b)	111.	(c)	112.	(a)	113.	(c)	114.	(b)
115.	(b)	116.	(d)	117.	(d)	118.	(a)	119.	(d)	120.	(b)

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CA Foundation – June 2024  
Business Economics

**Chapter 2**  
**THEORY OF DEMAND**  
**AND SUPPLY**

**Extra MCQs for Practice**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR





A.Q.	
1	The economist's concept of demand is _____ as desire or need or choice or preference or order.
a) the same thing b) not the same thing c) (A) or (B) d) None of these	

MTP Dec 22, A.Q.	
2	The most crucial determinant of demand for an item is _____
a) Income of consumer b) Prices of other related goods c) Taste and preference of consumer d) It's own price	

MTP Mar 18	
3	If distribution of income is more equal, then the propensity to consume of the country is
a) Relatively High b) Relatively Low c) Unaffected d) None of the above	

MTP Mar 18, MTP Dec 22	
4	When price of a substitute of X commodity falls, the demand for X _____
a) Rises b) Falls c) Remains unchanged d) Any of the above.	

PYQ Jun 23	
5	Increase in price of pulses leads to increase in demand of green vegetables
a) Substitutes b) Complimentary goods c) Normal goods d) None of the above	

Extra MCQ	
6	Which of the following statements are true or false- 1. Snob Effect represents the desire of people to be exclusive; to be different; to dissociate themselves from the "common herd." 2. Snob Effect is a function of price
a) (1) & (2) are false b) (1) & (2) are true c) (1) is true & (2) is false d) (1) is false & (2) is true	

Extra MCQ	
7	Highly priced goods are consumed by status seeking rich people to satisfy their need for conspicuous consumption. This happens because of-
a) Veblen Effect b) Snob Effect c) Bandwagon Effect d) Price Effect	

MTP Nov 22	
8	Match the following  LIST-I a) Tea and Coffee b) Car and Petrol c) Gold & Diamond d) Ragi and Bajara  LIST II 1. Veblen goods 2. Substitutes 3. Giffen goods 4. Complementary
Codes:    a    b    c    d (a)        1    2    3    4 (b)        2    4    1    3 (c)        1    3    4    2 (d)        1    3    2    4	

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A.Q.

9 An important generalization about demand is described by\_\_\_\_\_

- a) Law of demand
- b) Factors affecting demand
- c) Quantity demanded
- d) None of these

A.Q.

10 'Ceteris Paribus' clause in Law of demand does not mean-

- a) Price of commodity does not change
- b) Price of substitutes does not change
- c) Income of consumer does not change
- d) Price of complementary goods does not change

MTP Apr 21

11 In case of inferior goods:

- a) Income effect and substitution effect work in opposite direction
- b) Income effect and substitution effect work in same direction
- c) It leads consumer to purchase less of a good and more of the substitute
- d) None of these

Extra MCQ

12 In the case of inferior goods, the expansion in demand due to a price fall will take place only if the

- a) Income effect outweighs the substitution effect
- b) Substitution effect outweighs the income effect
- c) substitution effect equals the income effect
- d) None of the above

MTP Dec 22, MTP Mar 21

13 When violation of law of demand occurs:

- a) substitution effect is negative
- b) income effect is negative
- c) Negative income effect is less than substitution effect
- d) negative income effect is greater than substitution effect

PYQ Jun 22

14 The substitution effect will be what when the price of the product falls?

- a) Zero
- b) Negative
- c) Positive
- d) Lower cost

A.Q.

15 The price of a piece of jewellery rises, the demand for it may also rise as consumers attach a \_\_\_\_\_ to owning & displaying expensive items.

- a) money value
- b) use value
- c) snob value
- d) None of these

MTP Mar 22, Apr 23

16 For Giffen good the Engel curve is:

- a) Positive sloped
- b) Vertical
- c) horizontal
- d) Negative sloped

MTP Dec 22

17 In spite of the fact that the price of the television sets refrigerators, air conditions etc. have been continuously rising their demand does not stand any tendency to fall because they are

- a) Conspicuous goods
- b) Giffen goods
- c) Speculative goods
- d) Conspicuous necessities.

PYQ Jun 22	
18	In case of Veblen goods, the demand curve is
a) Horizontal b) Vertical c) Upward sloping to the right d) Downward sloping to the right	

PYQ Jun 22	
19	Which of the following statements is not correct?
a) Giffen goods exhibit negative relationship between price and demand b) Conspicuous goods exhibit positive relationship between price and demand c) Incomplete information and irrational behaviour of consumer is one of the reasons of exception to the law of demand d) Law of demand states inverse relationship between price of a commodity and its quantity demanded	

MTP Dec 22	
20	When real income rather than money income is kept constant in drawing a consumer's demand curve for a commodity, the demand curve is negatively sloped,
a) Always b) Never c) Sometimes d) Often.	

MTP Dec 22	
21	Empirical demand curves refer to demand curves estimated from
a) utility theory b) the new approach to consumer theory c) Information provided by individual consumers d) Actual market price-quantities observations.	

PYQ Jun 22	
22	The demand for petrol decreases due to increases in its price, it is termed as
a) A decreases in demand b) A change in demand c) A contraction in demand d) An increases in demand	

A.Q.	
23	Let $QX = 1500/Px$ the elasticity of demand of the good X when its price falls from \$ 8 to \$ 2 per unit, will be ____ (Use Arc Method)
a) greater than one b) less than one c) equal to one d) can't say	

Extra MCQ	
24	The price of a good decreases from Rs 80 to Rs 60 per unit. If price elasticity of demand = 2 Original Qty demanded = 50 units. Calculate the new qty demanded.
a) 25 units b) 75 units c) 100 units d) 0 units	

MTP Oct 18	
25	If R point bisects the demand curve in two equal part, then elasticity at R equals__
a) Zero b) Five c) Two d) One	

MTP Apr 21	
26	From the following demand curve determine the elasticity at the given price $Q = 1200 - 10P$ When $P = 5$ , $dQ/dP = 10$
a) Elastic b) Inelastic c) Unitary elastic d) None of these	

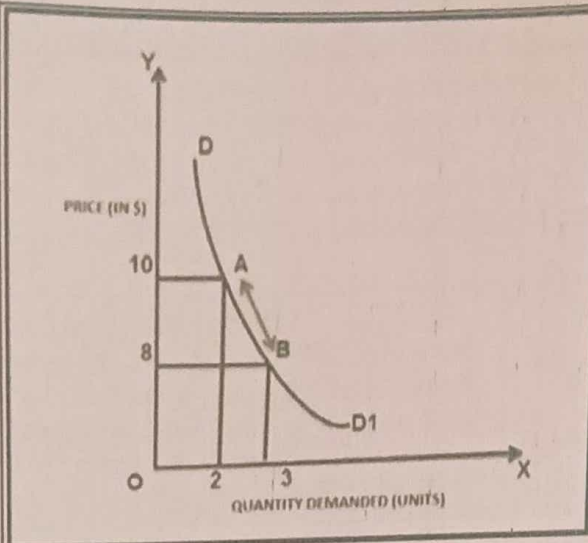
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Q128 in MCQ Compiler (Pg 2.17)

A.Q.

27



In the above figure, DD1 is the demand curve of a commodity. There are two points on demand curve i.e., A and B with (P, Q) as (10, 2) & (8, 3) respectively. If initial point is A OR initial point is B, price elasticity of demand will be

- a) same in both cases by point method of price elasticity of demand
- b) different in both cases by Arc method of price elasticity of demand
- c) same in both cases by Arc method & different by point method of price elasticity of demand
- d) None of these

MTP Mar 22

28

The Coefficient of Price elasticity of demand between two points on a demand curve is \_\_\_\_\_

- a) Arc elasticity
- b) Point elasticity
- c) Price elasticity
- d) None of these

MTP Jun 22

29

Which of the following statements is correct?

- a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero.
- b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite.
- c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity.
- d) None of these

MTP Jun 22

30

The share of the tax borne by seller will be larger

- a) If demand for product is less elastic.
- b) If demand for product is inelastic.
- c) If demand for product has greater elasticity.
- d) If elasticity of supply of product is larger.

MTP Mar 22

31

A movement along a curve rather than a shift in the curve can be measured by:-

- a) Cross elasticity of demand
- b) Income elasticity of demand
- c) Price elasticity of demand & Price elasticity of Supply
- d) None of these

Extra MCQ

32

If demand for a good is inelastic, then as per total outlay method

- a) Quantity Effect > Price Effect
- b) Quantity Effect = Price Effect
- c) Quantity Effect < Price Effect
- d) (a) or (c)





MTP Aug 18, May 20, Nov 22, SEQ

33 If increasing air fares increases revenues and decreasing them decreases revenues, then the demand for air travel has a price elasticity of:

- a) Zero
- b) Greater than zero but less than one
- c) One
- d) Greater than one

A.Q.

34 If the price of a commodity raised by 12% and Ed is (-) 0.63, the expenditure made on the commodity by a consumer will \_\_\_\_

- a) Decrease
- b) Increase
- c) Remain same
- d) Can't Say

MTP Mar 22

35 When the demand curve is a rectangular hyperbola an increase in the price of the commodity causes the total expenditure of consumers of the commodity to :

- a) Remain unchanged
- b) Increase
- c) Decrease
- d) Any of the above

A.Q.

36 Commodities such as prescribed medicines and salt have \_\_\_\_ and \_\_\_\_ hence, have an \_\_\_\_ demand

- a) Several substitutes, elastic
- b) Several substitutes, inelastic
- c) No close substitutes, inelastic
- d) No close substitutes, elastic

A.Q.

37 Demand for water is -

- a) Elastic
- b) Inelastic
- c) Perfectly elastic
- d) Relatively elastic

MTP Dec 22, A.Q.

38 During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy \_\_\_\_ vegetables than/as her usual demand showing the demand of vegetables is \_\_\_\_

- a) more, inelastic demand
- b) less, elastic demand
- c) same, inelastic demand
- d) same, elastic demand

MTP Mar 18, SEQ

39 The income of a household rises by 20 per cent, the demand for computer rises by 25 per cent, this means computer (in Economics) is a/an

- a) inferior good
- b) luxury good
- c) Necessity
- d) can't say

MTP Oct 19

40 Suppose income elasticity of bread is 0.25, its means that bread is-

- a) Inferior goods
- b) Luxury goods
- c) Normal goods
- d) Can't say

MTP Aug 18

41 Which of the following is incorrect?

- a) The cross elasticity of demand for two substitutes is positive.
- b) The income elasticity of demand is the percentage change in quantity demanded of a good due to a change in the price of a substitute.
- c) The cross elasticity of demand for two complements is negative.
- d) The price elasticity of demand is always negative, except for Giffen goods.

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Extra MCQ

42 When the numerical value of cross elasticity between two goods is very high, it means

- a) goods are perfect complements and therefore have to be used together
- b) goods are perfect substitutes and can be used with ease in place of one another
- c) there is a high degree of substitutability between the two goods
- d) goods are neutral and therefore cannot be considered as substitutes

Extra MCQ

43 The cross elasticity between personal computers and soft wares is:

- a) Positive
- b) Zero
- c) Negative
- d) One

MTP Mar 22

44 Between two perfect substitute The elasticity of substitution is \_\_\_\_\_

- a)  $> \text{Zero}$
- b)  $= \text{Zero}$
- c)  $< \text{Infinity}$
- d)  $\text{Infinity}$

Extra MCQ

45 If the value of cross-price elasticity between 2 goods is only slightly below zero, then it is a case of \_\_\_\_\_

- Remote substitutes
- Close substitutes
- Weak complements
- Strong complements

PYQ Jun 22

46 Advertising elasticity of demand is typically \_\_\_\_\_

- a) Negative
- b) Positive
- c) Always zero
- d) None of the above

Extra MCQ

47 The objective of advertisement is to

- a) Shift demand Curve to left & Reduce elasticity of demand
- b) Shift demand Curve to right & increase elasticity of demand
- c) Shift demand Curve to left & increase elasticity of demand
- d) Shift demand Curve to right & Reduce elasticity of demand

MTP May 23

48 There will be \_\_\_\_\_ in the demand Curve of cars with an increase in the Price of Petrol

- a) Leftward shift
- b) Rightward Shift
- c) Upward Movement
- d) Downward Movement

PYQ Jun 23

49 Movement along the same demand curve represents

- a) Change in demand
- b) Change in Quantity demand
- c) Increase in demand
- d) Decrease in demand

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A.Q.	
50	Luxuries are goods that are
a) Enjoyable and essential b) Enjoyable but not essential c) Essential but not enjoyable d) Neither enjoyable nor essential	

A.Q.	
51	People know utility of goods by means of _____
a) price b) introspection c) demand d) desire	

A.Q.	
52	By way of an optimal choice, a consumer tends to
a) save money b) purchase large quantity c) maximize satisfaction d) Maximize satisfaction subject to constraints like tastes and preferences	

SEQ	
53	Consumer stops purchasing the additional units of the commodity when
a) marginal utility starts declining b) marginal utility become zero c) marginal utility is equal to marginal utility of money d) total utility is increasing	

MTP Dec 22, A.Q.	
54	At saturation point of TU curve , the slope of TU curve is _____
a) 1 b) Infinity c) Zero d) Positive	

A.Q.	
55	MU curve will be below X-axis when
a) MU is zero b) TU is falling c) MU is negative d) Both (B) and (C)	

MTP Mar 21	
56	MU from last unit consumed of commodity Y = 50 Units and $MUM = 10$ . Consumer is in equilibrium and consuming commodity y only. Find the Price of Commodity Y _____
a) 5 b) 10 c) 40 d) None of these	

MTP Oct 18, Oct 20	
57	Marginal utility approach to demand was given by _____
a) J R Hicks b) Alfred Marshall c) Robbins d) A C Pigou	

Extra MCQ	
58	Which of the following is incorrect relating to Law of Diminishing Marginal Utility ?
a) Law may not apply in case of prestigious goods b) Law may not hold in case of hobbies c) Law applies in case of habit forming commodities d) Law may not be operating in cases such as creative art	

MTP Nov 22, MTP Apr 19	
59	Cardinal Measurability of utility means:
a) Utility can be measured b) Utility cannot be measured c) Utility can be ranked d) Utility can be measured in some case	

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MTP Mar 18

60 Law of diminishing marginal utility may not apply to:

a) Money  
b) Butter  
c) Pepsi, Coke etc.  
d) Ice cream

MTP Jun 22

61 A consumer is in equilibrium when s/he is deriving \_\_\_\_\_ satisfaction from the goods.

a) maximum  
b) possible  
c) maximum possible  
d) None of these

MTP Mar 22

62 After reaching the saturation point, consumption of additional units of the commodity cause:

a) Total utility to fall and marginal utility to increase  
b) Total utility and marginal utility both to increase  
c) Total utility to fall and marginal utility to become negative  
d) Total utility to become negative and marginal utility to fall

PYQ Jun 22

63 When total utility is diminishing, the marginal utility is

a) Diminishes  
b) Zero  
c) Negative  
d) Increases

MTP Nov 22, MTP Aug 18, Mar 19, SEQ

64 The law of consumer surplus is based on :

a) indifferent curve analysis  
b) revealed preference theory  
c) law of substitution  
d) the law of diminishing marginal utility

MTP Mar 18, Mar 19

65 In case of necessities the marginal utilities of the earlier units are large. In such cases the consumer surplus will be:

a) Infinite  
b) Zero  
c) Marginally positive  
d) Marginally Negative

Extra MCQ

66 Consumer surplus is represented by the \_\_\_\_\_

a) Area above the demand curve and below the price  
b) Area below the demand curve and above the price  
c) Area on the right of demand curve  
d) None of the above

SEQ, MTP Apr 23

67 Under income effect, consumer

a) Move along original indifference curve  
b) moves to higher or lower indifference curve  
c) always purchases higher quantities of both the commodities  
d) none of the above

MTP Nov 22, A.Q.

68 A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has \_\_\_\_\_

a) more of one of the goods  
b) less of at least one of the goods  
c) more of at least one of the goods and less of the other good.  
d) more of at least one of the goods and no less of the other good.

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A.Q.	
69	According to ordinal approach of consumer's behavior-
a) Consumer is able to indicate the exact amounts of utilities that he derives from commodity or any combinations of them. b) Utility being psychological feeling is not quantifiable. c) The consumer is capable of simply comparing the different levels of satisfaction. d) Both (B) and (C)	

A.Q., MTP Jun 22	
70	Which of the following statements is correct regarding indifference curve?
a) Two ICs may not intersect each other. b) Two ICs may intersect each other c) Two ICs are always parallel to each other d) None of these	

MTP Mar 21	
71	When goods are complementary the indifference curve is :
a) is a straight line b) is convex to the origin c) consist of two straight line with a right angle bent. d) none of these	

MTP MAR 18, Apr 19	
72	Which is not the assumption of Indifference curve Analysis?
a) The consumer is rational and possesses full information about all the aspects of economic environment b) The consumer is not capable of ranking all combinations c) if consumer prefers combination A to B, and B to C, then he must prefer combination A to C d) if combination A has more commodities than combination B, then A must be preferred to B.	

MTP Apr 19	
73	Indifference curve is convex to the origin due to:
a) Falling MRS b) Rising MRS c) Constant MRS d) None of the above	

MTP Mar 19	
74	_____ depicts complete picture of consumer tastes and preferences.
a) Budget line b) Average cost curve c) Indifference map d) Marginal revenue curve	

Extra MCQ	
75	Which of the following is not a property of the indifference curve ?
a) Indifference curves slope downward to the right b) Indifference curves slope downward to the right c) Indifference curves may or may not intersect each other d) Indifference curve will not touch either axes	

MTP Mar 22	
76	When two goods are perfect substitute for each other:
a) Indifference curve for these two goods are straight parallel line with a constant slope along the curve b) Indifference curve has a constant MRS c) Concave to the Origin d) Both (a) and (b)	

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MTP Dec 22

77 The substitution effect for a fall in the price of a commodity (*ceteris paribus*) is given by

- a movement up a given indifference curve
- a movement from a higher to a lower indifference curve
- A movement down a given indifference curve
- any of the above.

MTP Nov 22

Match the following LIST-I

- Two perfect substitute goods
- Two perfect complementary goods
- Indifference curve is always
- Higher IC gives higher level of satisfaction

78

LIST – II

- Linear indifference curve
- Monotonic preference
- L-Shape Indifference curve
- Convex to the origin

Codes:	a	b	c	d
(a)	1	2	3	4
(b)	3	1	4	2
(c)	1	3	4	2
(d)	1	3	2	4

A.Q.

79 While drawing budget line of a consumer consuming Nachos chips and Pepsi, if the quantity of Nachos taken on Y-axis and quantity of Pepsi on X-axis. The slope of budget line will be- [Where,  $P_p$  – Price of Pepsi,  $P_N$  – Price of Nachos &  $M$  – Money income of consumer]

- $\frac{P_p}{P_N}$
- $\frac{P_N}{P_p}$
- $\frac{M}{P_N}$
- $\frac{M}{P_p}$

Extra MCQ

80 We can write the budget constraint for two goods X and Y as -

- $P_x.Q_x + P_y.Q_y \leq B$
- $P_x.Q_x + P_y.Q_y < B$
- $P_x.Q_x + P_y.Q_y > B$
- $P_x.Q_x + P_y.Q_y = B$

MTP Oct 19

81 The slope of consumer's budget line is -

- Positive and constant
- Negative and decreasing
- Negative and constant
- Positive and increasing

MTP Dec 22

82 Shift in the budget line when prices are constant are due to

- Change in income
- Change in demand
- Change in utility
- None of these

MTP Mar 19

83 When the consumer is in equilibrium his price line is \_\_\_\_\_ to indifference curve

- Parallel
- At right angle
- Diagonally opposite
- Tangent

MTP May 23

84 The budget line is also known as:

- Production Possibility Curve
- Consumption Possibility Curve
- Iso Utility Curve
- None of these

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A.Q., MTP Apr 23

**85** Supply and stock are \_\_\_\_\_

a) same things  
 b) different  
 c) having no comparison  
 d) Both (B) and (C)

MTP Mar 22

**86** Behavior of Supply depends upon:

a) Phenomenon Considered  
 b) Degree of possible adjustment in supply  
 c) Time Period under Consideration  
 d) All the above

MTP Mar 22

**87** Suppose we are drawing a supply curve of a farmer which of the following will not be held constant. :

a) Price of Inputs  
 b) Weather Conditions  
 c) Technology  
 d) The price of the Commodity under consideration

SEQ

**88** Yesterday, seller A supplied 400 units of a good X at Rs. 10 per unit. Today, seller A supplies the same quantity of units at Rs. 5 per unit. Based on this evidence, seller A has experienced a (an)

a) Decrease in supply.  
 b) Increase in supply.  
 c) Increase in the quantity supplied.  
 d) Decrease in the quantity supplied

Extra MCQ

**89** The supply function is given as:  $-55 + 15p$ . Find elasticity of supply using point method, if price = Rs 20

a) -2  
 b) 1.56  
 c) 1.22  
 d) 1.82

MTP Aug 18, SEQ

**90** If a fisherman must sell all of his daily catch before it spoils for whatever price he is offered, once the fish are caught the fisherman's price elasticity of supply for fresh fish is \_\_\_\_\_

a) zero.  
 b) infinite.  
 c) one.  
 d) unable to be determined from this information.

A.Q.

**91** Relationship between slope of supply curve and elasticity of supply can be defined as -

a) Product of slope of supply curve and ratio of quantity supply to price  
 b) Elasticity of supply is equal to the slope of supply curve.  
 c) Product of reciprocal of slope of supply curve and ratio of price to quantity supplied  
 d) Elasticity of supply is equal to reciprocal of slope of supply curve.

MTP Apr 21

**92** When price of a good rises from Rs. 20 to Rs. 30 the producer supplier 20 percent more the Price elasticity of supply is

a) 0.5  
 b) 0.4  
 c) 1  
 d) None of these

Extra MCQ

**93** To improve price elasticity of supply an organisation can

a) Improve the technology used  
 b) Increase production capacity  
 c) Expand storage space for stock while making sure that products can last long while stored  
 d) All of the above

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MTP Jun 22

94 Slope of supply curve is 0.6, calculate elasticity of supply when initial price is \$ 30 per unit & initial qty is 100 units.

- a) 0.5
- b) 5.55
- c) (-) 0.5
- d) (-) 0.18

MTP Dec 22

95 Elasticity of supply at any point on a supply curve passing through origin point making angle of 35 degree with X-axis is \_\_\_\_\_

- a) Greater than one
- b) Less than one
- c) Equal to one
- d) Any of the above

PYQ Jun 22

96 If price of sugar increases from Rs. 8,000/- to 10,000/- per tone & due to that quantity supplied of sugar increases from 2000 to 2500 tones. Elasticity of supply will be \_\_\_\_\_

- a) (-) 1
- b) 1
- c) (-) 0.4
- d) 0.4

PYQ Jun 22

97 Supply will be \_\_\_\_\_ if firms are not working to full capacity

- a) Inelastic
- b) Perfectly Inelastic
- c) Elastic
- d) Any of the above

98

Supply is \_\_\_\_\_ when there is large number of producers and there is high degree of competition

- a) Less elastic
- b) More elastic
- c) Perfectly inelastic
- d) Any of the above

MTP Apr 22

99

Products that involve more complex production processes or require relatively longer time to produce exhibit \_\_\_\_\_

- a) Greater elasticity of supply
- b) Lower elasticity of supply
- c) Zero elasticity of supply
- d) None of the above

MTP Jun 22

100

The market demand curve for a perfectly competitive industry is:  $Q_d = 12 - 2P$  and the market supply curve is:  $Q_s = 3 + P$ . The market will be in equilibrium if

- a)  $P = 6$  and  $Q = 9$
- b)  $P = 5$  and  $Q = 2$
- c)  $P = 4$  and  $Q = 4$
- d)  $P = 3$  and  $Q = 6$

Extra MCQ

101

\_\_\_\_\_ represents the net gains to society from all exchanges that are made in a particular market

- a) Market Equilibrium
- b) Consumer welfare
- c) Social Efficiency
- d) None of the above

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Extra MCQ

102

\_\_\_\_\_ is represented by the area above the supply curve and below the price line

- a) Consumer surplus
- b) Producer surplus
- c) Consumer Welfare
- d) (a) or (c)

A.Q.

103

Elasticity of demand and supply are \_\_\_\_\_ concepts

- a) Relative
- b) Absolute
- c) Both (A) and (B)
- d) Neither (A) and (B)

MTP Mar 22

104

A theory is :

- a) An assumption
- b) A hypothesis
- c) A validated hypothesis
- d) None of these

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## Answer Key – Economics Chapter 2

1	B	21	D	41	B	61	C	81	A	101
2	D	22	C	42	C	62	C	82	D	102
3	A	23	C	43	C	63	D	83	B	103
4	B	24	B	44	D	64	A	84	B	104
5	A	25	D	45	C	65	B	85	D	
6	C	26	B	46	B	66	B	86	D	
7	A	27	C	47	D	67	D	87	B	
8	B	28	A	48	A	68	D	88	C	
9	A	29	A	49	B	69	D	89	A	
10	A	30	C	50	B	70	C	90	B	
11	A	31	C	51	B	71	B	91	C	
12	B	32	C	52	D	72	A	92	D	
13	D	33	B	53	C	73	C	93	A	
14	C	34	B	54	D	74	C	94	C	
15	C	35	A	55	A	75	D	95	B	
16	D	36	C	56	B	76	D	96	C	
17	D	37	B	57	C	77	C	97	B	
18	C	38	C	58	A	78	A	98	B	
19	A	39	B	59	A	79	A	99	D	
20	A	40	C	60	C	80	C	100	C	

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CA Foundation – June 2024  
Business Economics

**Chapter 3**  
**THEORY OF PRODUCTION AND  
COST**

**ICAI SM MCQs**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



## UNIT 2

## Basic

ICAI SM

1 Which of the following is considered production in Economics?

- a) Tilling of soil.
- b) Singing a song before friends.
- c) Preventing a child from falling into a manhole on the road.
- d) Painting a picture for pleasure.

ICAI SM

2 Identify the correct statement:

- a) The average product is at its maximum when marginal product is equal to average product.
- b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
- c) Economies of scale arise only because of indivisibilities of factor proportions.
- d) Internal economies of scale can accrue when industry expands beyond optimum.

ICAI SM

3 Which of the following is not a characteristic of land?

- a) Its supply for the economy is limited.
- b) It is immobile.
- c) Its usefulness depends on human efforts.
- d) It is produced by our forefathers.

4 Which of the following statements is true?

- a) Accumulation of capital depends solely on income of individuals.
- b) Savings can be influenced by government policies.
- c) External economies go with size and internal economies with location.
- d) The supply curve of labour is an upward slopping curve.

ICAI SM

5 In the production of wheat, all of the following are variable factors that are used by the farmer except:

- a) the seed and fertilizer used when the crop is planted.
- b) the field that has been cleared of trees and in which the crop is planted.
- c) the tractor used by the farmer in planting and cultivating not only wheat but also corn and barley.
- d) the number of hours that the farmer spends in cultivating the wheat fields.

ICAI SM

6 The marginal product of a variable input is best described as:

- a) total product divided by the number of units of variable input.
- b) the additional output resulting from a one unit increase in the variable input.
- c) the additional output resulting from a one unit increase in both the variable and fixed inputs.
- d) the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.

ICAI SM

7 Diminishing marginal returns implies:

- a) decreasing average variable costs.
- b) decreasing marginal costs.
- c) increasing marginal costs.
- d) decreasing average fixed costs.

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ICAI SM

8

The short run, as economists use the phrase, is characterized by:

- a) at least one fixed factor of production and firms neither leaving nor entering the industry.
- b) generally a period which is shorter than one year.
- c) all factors of production are fixed and no variable inputs.
- d) all inputs are variable and production is done in less than one year.

ICAI SM

9

The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:

- a) when total product is rising, average and marginal product may be either rising or falling.
- b) when marginal product is negative, total product and average product are falling.
- c) when average product is at a maximum, marginal product equals average product, and total product is rising.
- d) when marginal product is at a maximum, average product equals marginal product, and total product is rising.

10

To economists, the main difference between the short run and the long run is that:

- a) In the short run all inputs are fixed, while in the long run all inputs are variable.
- b) In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
- c) In the short run, at least one of the firm's input levels is fixed.
- d) In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.

ICAI SM

11

Which of the following is the best definition of "production function"?

- a) The relationship between market price and quantity supplied.
- b) The relationship between the firm's total revenue and the cost of production.
- c) The relationship between the quantities of inputs needed to produce a given level of output.
- d) The relationship between the quantity of inputs and the firm's marginal cost of production.

ICAI SM

12

The "law of diminishing returns" applies to:

- a) the short run, but not the long run.
- b) the long run, but not the short run.
- c) both the short run and the long run.
- d) neither the short run nor the long run.

ICAI SM

13

Diminishing returns occur:

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



Use the following data to answer questions 14-16.

Hours of Labour	Total Output	Marginal Product
-	-	-
100	100	100
-	-	80
240	-	-

ICAI SM

What is the total output when 2 hours of labour are employed?

- 80
- 100
- 180
- 200

ICAI SM

What is the marginal product of the third hour of labour?

- 50
- 80
- 100
- 240

ICAI SM

What is the average product of the first three hours of labour?

- 60
- 80
- 100
- 240

ICAI SM

Which cost increases continuously with the increase in production?

- Average cost.
- Marginal cost.
- Fixed cost.
- Variable cost.

ICAI SM

18 Which of the following cost curves is never 'U' shaped?

- a) Average cost curve.
- b) Marginal cost curve.
- c) Average variable cost curve.
- d) Average fixed cost curve.

ICAI SM

19 Total cost in the short run is classified into fixed costs and variable costs. Which one of the following is a variable cost?

- a) Cost of raw materials.
- b) Cost of equipment.
- c) Interest payment on past borrowings.
- d) Payment of rent on building.

ICAI SM

20 In the short run, when the output of a firm increases, its average fixed cost:

- a) increases.
- b) decreases.
- c) remains constant.
- d) first declines and then rises.

ICAI SM

21 Which one of the following is also known as planning curve?

- a) Long run average cost curve.
- b) Short run average cost curve.
- c) Average variable cost curve.
- d) Average total cost curve.

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## ICAI SM

22 If a firm moves from one point on a production isoquant to another, which of the following will not happen.

- A change in the ratio in which the inputs are combined to produce output.
- A change in the ratio of marginal products of the inputs.
- A change in the marginal rate of technical substitution.
- A change in the level of output.

## ICAI SM

23 With which of the following is the concept of marginal cost closely related?

- Variable cost.
- Fixed cost.
- Opportunity cost.
- Economic cost.

## ICAI SM

24 Which of the following statements is correct?

- When the average cost is rising, the marginal cost must also be rising.
- When the average cost is rising, the marginal cost must be falling.
- When the average cost is rising, the marginal cost is above the average cost.
- When the average cost is falling, the marginal cost must be rising.

## ICAI SM

25 Which of the following is an example of "explicit cost"?

- The wages a proprietor could have made by working as an employee of a large firm.
- The income that could have been earned in alternative uses by the resources owned by the firm.
- The payment of wages by the firm.
- The normal profit earned by a firm.

## ICAI SM

26 Which of the following is an example of an "implicit cost"?

- Interest that could have been earned on retained earnings used by the firm to finance expansion.
- The payment of rent by the firm for the building in which it is housed.
- The interest payment made by the firm for funds borrowed from a bank.
- The payment of wages by the firm.

Use the following data to answer questions 27-29.

Output (Q)	0	1	2	3	4	5	6
Total Cost (TC)	Rs.24	Rs.33	Rs.410	Rs.48	Rs.54	Rs.61	Rs.69
	0	0		0	0	0	0

## ICAI SM

27 The average fixed cost of 2 units of output is:

- Rs.80
- Rs.85
- Rs.120
- Rs.205

## ICAI SM

28 The marginal cost of the sixth unit of output is:

- Rs.133
- Rs.75
- Rs.80
- Rs.450

## ICAI SM

29 Diminishing marginal returns start to occur between units:

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

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ICAI SM

30 Marginal cost is defined as:

- a) the change in total cost due to a one unit change in output.
- b) total cost divided by output.
- c) the change in output due to a one unit change in an input.
- d) total product divided by the quantity of input.

ICAI SM

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

- a) If MC is greater than ATC, then ATC is falling.
- b) The ATC curve intersects the MC curve at minimum MC.
- c) The MC curve intersects the ATC curve at minimum ATC.
- d) If MC is less than ATC, then ATC is increasing.

ICAI SM

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

- a)  $ATC = AFC - AVC$ .
- b)  $AVC = AFC + ATC$ .
- c)  $AFC = ATC + AVC$ .
- d)  $AFC = ATC - AVC$ .

ICAI SM

33 Which of the following is not a determinant of the firm's cost function?

- a) The production function.
- b) The price of labour.
- c) Taxes.
- d) The price of the firm's output.

ICAI SM

34 Which of the following statements is correct concerning relationships among the firm's cost functions?

- a)  $TC = TFC - TVC$ .
- b)  $TVC = TFC - TC$ .
- c)  $TFC = TC - TVC$ .
- d)  $TC = TVC - TFC$ .

ICAI SM

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

- a) increase due to an increase in fixed costs only.
- b) increase due to an increase in variable costs only.
- c) increase due to an increase in both fixed and variable costs.
- d) decrease if the firm is in the region of diminishing returns.

ICAI SM

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

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

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ICAI SM	
37	The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?
a) Diseconomies of scale. b) Diminishing returns. c) The difficulties encountered in coordinating the many activities of a large firm. d) The increase in productivity that results from specialization.	

ICAI SM	
38	The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?
a) Diseconomies of scale. b) Increasing returns. c) The firm being able to take advantage of large-scale production techniques as it expands its output. d) The increase in productivity that results from specialization.	

ICAI SM	
39	A firm's average total cost is Rs.300 at 5 units of output and Rs.320 at 6 units of output. The marginal cost of producing the 6th unit is:
a) Rs.20 b) Rs.120 c) Rs.320 d) Rs.420	

ICAI SM	
40	A firm producing 7 units of output has an average total cost of Rs.150 and has to pay Rs.350 to its fixed factors of production whether it produces or not. How much of the average total cost is made up of variable costs?
a) Rs.200 b) Rs.50 c) Rs.300 d) Rs.100	

ICAI SM	
41	A firm has a variable cost of Rs.1000 at 5 units of output. If fixed costs are Rs.400, what will be the average total cost at 5 units of output?
a) Rs.280 b) Rs.60 c) Rs.120 d) Rs.1400	

ICAI SM	
42	A firm's average fixed cost is Rs.20 at 6 units of output. What will it be at 4 units of output?
a) Rs.60 b) Rs.30 c) Rs.40 d) Rs.20	

ICAI SM	
43	Which of the following statements is true?
a) The services of a doctor are considered production. b) Man can create matter. c) The services of a housewife are considered production. d) When a man creates a table, he creates matter.	

ICAI SM	
44	Which of the following is a function of an entrepreneur?
a) Initiating a business enterprise. b) Risk bearing. c) Innovating. d) All of the above.	

ICAI SM	
45	In describing a given production technology, the short run is best described as lasting:
a) up to six months from now. b) up to five years from now. c) as long as all inputs are fixed. d) as long as at least one input is fixed.	

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ICAI SM

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

- output will also decrease by 10%.
- output will increase by 10%.
- output will increase by less than 10%.
- output will increase by more than 10%.

ICAI SM

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

- another combination that yields the same output.
- the highest resulting output.
- the increase in output generated by one-unit increase in one output.
- all levels of output that can be generated by those inputs.

ICAI SM

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

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

ICAI SM

49 The average product of labour is maximized when marginal product of labour:

- equals the average product of labour.
- equals zero.
- is maximized.
- none of the above.

ICAI SM

50 The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:

- the technology is changing.
- there must be some inputs whose quantity is kept fixed.
- we consider only physical inputs and not economically profitability in monetary terms.
- the technology is given and stable.

ICAI SM

51 What is a production function?

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

ICAI SM

52 Laws of production does not include .....

- returns to scale.
- law of diminishing returns to a factor.
- law of variable proportions.
- least cost combination of factors.

53 An iso quant shows

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



ICAI SM

54 Economies of scale exist because as a firm increases its size in the long run:

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

ICAI SM

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

- a) rent of the factory.
- b) wages paid to the factory labour.
- c) interest payments on borrowed financial capital.
- d) payment on the lease for factory equipment.

ICAI SM

55 The production function:

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

ICAI SM

58 The efficient scale of production is the quantity of output that minimizes

- a) average fixed cost.
- b) average total cost.
- c) average variable cost.
- d) marginal cost.

ICAI SM

56 The production process described below exhibits.

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

- a) constant marginal product of labour.
- b) diminishing marginal product of labour.
- c) increasing return to scale.
- d) increasing marginal product of labour.

ICAI SM

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

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

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ICAI SM

69 A fixed input is defined as

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

ICAI SM

61 Average product is defined as

- total product divided by the total cost.
- total product divided by marginal product.
- total product divided by the number of units of variable input.
- marginal product divided by the number of units of variable input.

ICAI SM

62 Which of the following statements is true?

- After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.
- Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.
- The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.
- All the above.

ICAI SM

63 Marginal product, mathematically, is the slope of the

- total product curve.
- average product curve.
- marginal product curve.
- implicit product curve.

ICAI SM

64 Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:

- 50
- 100
- 150
- 200

ICAI SM

65 Which of the following statements is false in respect of fixed cost of a firm?

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

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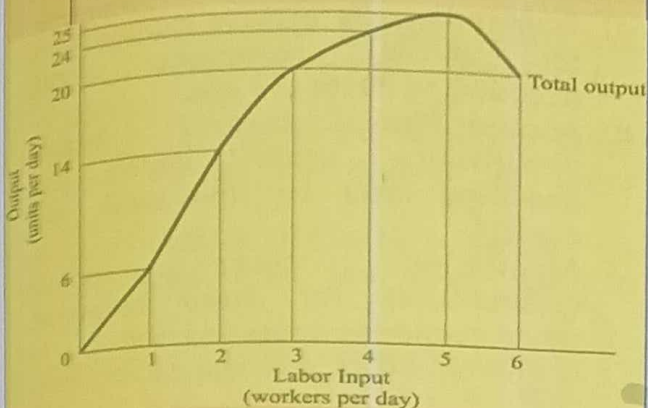
ICAI SM

66 Diminishing marginal returns for the first four units of a variable input is exhibited by the total product sequence:

- a) 50, 50, 50, 50
- b) 50, 110, 180, 260
- c) 50, 100, 150, 200
- d) 50, 90, 120, 140

ICAI SM

67 Use the following diagram to answer the question given below it



The marginal physical product of the third unit of labour is         , the MP of the          labour is Negative.

- a) Six; fourth
- b) Six; third
- c) Six; fifth
- d) Six; sixth

ICAI SM

68 In the third of the three stages of production:

- a) the marginal product curve has a positive slope.
- b) the marginal product curve lies completely below the average product curve.
- c) total product increases.
- d) marginal product is positive.

ICAI SM

69 When marginal costs are below average total costs,

- a) average fixed costs are rising.
- b) average total costs are falling.
- c) average total costs are rising.
- d) average total costs are minimized.

ICAI SM

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

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

ICAI SM

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

- a) an increase in pollution level.
- b) diseconomies of scale.
- c) economies of scale.
- d) constant returns to scale.

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

- a) Identical to its long-run marginal-cost curve as all factors are variable.
- b) Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run.
- c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
- d) Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.

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ICAI SM

73 Which of the following statements describes increasing returns to scale?

- a) Doubling of all inputs used leads to doubling of the output.
- b) Increasing the inputs by 50% leads to a 25% increase in output.
- c) Increasing inputs by 1/4 leads to an increase in output of 1/3.
- d) None of the above.

ICAI SM

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

- a) marginal cost and average cost are both falling
- b) marginal cost and average cost are both rising
- c) marginal cost is rising and average cost is falling
- d) it is impossible to tell if either of the curves are rising or falling

ICAI SM

75 Implicit cost can be defined as

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

ICAI SM

76 The most important function of an entrepreneur is to \_\_\_\_\_

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

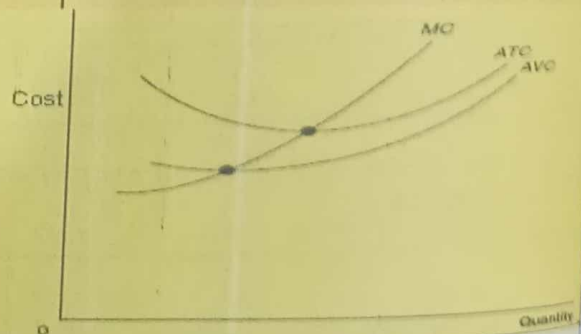
ICAI SM

77 Economic costs of production differ from accounting costs of production because

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

ICAI SM

78 In figure below, possible reason why the average variable cost curve approaches the average total cost curve as output rises is:



- a) Fixed costs are falling while total costs are rising at rising output.
- b) Total costs are rising and average costs are also rising.
- c) Marginal costs are above average variable costs as output rises.
- d) Average fixed costs are falling as output rises.

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ICAI SM

79 Marginal cost changes due to changes in -----

- a) Total cost
- b) Average cost
- c) Variable cost
- d) Quantity of output

ICAI SM

80 Which of the following statements is correct?

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

ICAI SM

81 Which of the following statements is incorrect?

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

ICAI SM

82 The vertical difference between TVC and TC is equal to-

- a) MC
- b) AVC
- c) TFC
- d) None of the above

ICAI SM

83 The falling part of long run average cost curve is tangent to the \_\_\_\_\_ of corresponding short run average cost curve(s).

- a) falling part
- b) rising part
- c) minimum point
- d) None of the above

ICAI SM

84 Which one of the following is an external economies of scale in long run?

- a) Risk bearing economies
- b) Financial economies
- c) Development of skill labour
- d) None of the above



## Answer Key – Chapter 3 (unit – 2)

1.	(a)	2.	(a)	3.	(d)	4.	(b)	5.	(b)	6.	(b)
7.	(c)	8.	(a)	9.	(d)	10.	(c)	11.	(c)	12.	(a)
13.	(b)	14.	(c)	15.	(a)	16.	(b)	17.	(d)	18.	(d)
19.	(a)	20.	(b)	21.	(a)	22.	(d)	23.	(a)	24.	(c)
25.	(c)	26.	(a)	27.	(c)	28.	(c)	29.	(c)	30.	(a)
31.	(c)	32.	(d)	33.	(d)	34.	(c)	35.	(b)	36.	(c)
37.	(d)	38.	(a)	39.	(d)	40.	(d)	41.	(a)	42.	(b)
43.	(a)	44.	(d)	45.	(d)	46.	(c)	47.	(b)	48.	(c)
49.	(a)	50.	(a)	51.	(a)	52.	(d)	53.	(c)	54.	(d)
55.	(d)	56.	(b)	57.	(b)	58.	(b)	59.	(d)	60.	(b)
61.	(c)	62.	(d)	63.	(a)	64.	(b)	65.	(b)	66.	(d)
67.	(d)	68.	(b)	69.	(b)	70.	(d)	71.	(c)	72.	(d)
73.	(c)	74.	(b)	75.	(b)	76.	(a)	77.	(d)	78.	(d)
79.	(c)	80.	(d)	81.	(d)	82.	(c)	83.	(a)	84.	(c)

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CA Foundation – June 2024  
Business Economics

**Chapter 3**  
**THEORY OF PRODUCTION &  
COST**

**Extra MCQs for Practice**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR





MTP Aug 18, SEQ

1 Production may be defined as an act of \_\_\_\_\_

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

PYQ Jun 22

2 'Land is heterogeneous' implies which of the following?

- a) Two lands are alike
- b) Two lands are not alike
- c) Two lands are fixed
- d) Two lands are mobile

MTP Mar 19

3 Which of the following is not the characteristic of Labour?

- a) Labour is highly 'Perishable' in the sense that a day's labour lost cannot be completely recovered
- b) Labour is inseparable from the labourer himself
- c) Labour has a strong bargaining power
- d) The supply of labour and wage rate are directly related in the initial stages

MTP Apr 19

4 Capital is a :

- a) Stock concept
- b) Flow Concept
- c) Both (a) and (b)
- d) None of the above

MTP Mar 19

5 Which of the following statements is incorrect?

- a) The services of doctors, lawyers, teachers etc. are termed as production
- b) Man cannot create matter
- c) Accumulation of capital does not depend solely on income
- d) None of the above

A.Q.

6 Which one of the following is not a national objective of an enterprise?

- a) To provide fair deal to the employees at different levels.
- b) To remove inequality of opportunities & provide fair opportunity to all to work and to progress.
- c) To produce according to national priorities.
- d) To help the country become self reliant & avoid dependence on other nations.

A.Q.

7 An enterprise has social objectives as-

- a) It has to make profit from the society.
- b) It lives in society & it cannot grow unless it meets the needs of the society.
- c) It has a separate legal identity.
- d) None of these

A.Q.

8 Human objectives of an enterprise are-

- a) To provide fair deal to the employees at different levels.
- b) To develop new skills and abilities and provide a work climate in which they will grow mature.
- c) Only (A)
- d) Both (A) and (B)

A.Q.

9 Which of the following is not a problem of an enterprise?

- a) Problem relating to location & size.
- b) Problem of making huge profit.
- c) Problem relating to finance.
- d) Problem relating to organizational structure.

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A.Q.  
10 In the long run which factor of production is fixed?  
a) Labour  
b) Capital  
c) Building  
d) None of these

MTP Oct 19  
11 Long run production function related to-  
a) Returns to a factor  
b) Returns to scale  
c) Both a and b  
d) None of these

A.Q.  
12 Match List I with List II and choose the correct answer using the codes given below

LIST I	
A	MP is larger than AP
B	MP is equal to AP
C	MP is smaller than AP

LIST 2	
I.	AP is at its maximum
II.	AP is falling
III.	AP is rising

Codes:	a	b	c
(A)	I	II	III
(B)	III	I	II
(C)	II	III	I
(D)	III	II	I

MTP Mar 21  
13 The producer's demand for a factor of production is governed by the \_\_\_\_\_ of that factor  
a) price  
b) marginal productivity  
c) availability  
d) Profitability

MTP Oct 19  
14 In the third phase of Law of variable proportions, MP becomes-  
a) Zero  
b) Negative  
c) Positive  
d) None of these

MTP Oct 19  
15 When Marginal product is zero, then Total product is -  
a) Zero  
b) Falling  
c) Rising  
d) Maximum

Extra MCQ  
16 Which of the following stage(s) of Law of Variable Proportion are known as "economic non-sense" or "economic absurdity"  
a) Stage 1  
b) Stage 2  
c) Stage 3  
d) Both (a) & (c)

MTP Aug 18

Read table & answer questions 17-18

Labour Input	Output	Average Product	Marginal Product
0	0	-	-
2			25
4	90		
6	120		
8	140		
10		14	
12		10	

MTP Aug 18  
17 At a labour of 2, output is:  
a) 25  
b) 30  
c) 50  
d) 75

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MTP Aug 18

18 At a labour input of 4, output per worker is:

- a) 20
- b) 22.5
- c) 45
- d) 90

MTP Aug 18

19 The law of diminishing returns:

- a) States that beyond some level of a variable input, the average product of that variable input begins to increase steadily.
- b) Assumes that there is technological improvement over time.
- c) States that beyond some level of a variable input, the marginal product of that variable begins to decrease steadily.
- d) Informs a firm whether or not to use a factor input.

MTP Mar 22

20 A rational producer will always produce in which stage of law of variable proportion:

- a) Stage I
- b) Stage II
- c) Stage III
- d) None of these

A.Q.

21 If all inputs are increased in the same proportion, then it is the case of

1. Short run production function
2. Long run production function
3. Law of Variable Proportion
4. Law of Returns to Scale

- a) 1 & 2 only
- b) 2 & 3 only
- c) 1 & 4 only
- d) 2 & 4 only

MTP Apr 21

22 Linear homogeneous function means:

- a) Input and output increases by same proportions.
- b) Input increases by some proportions and output increase more than proportionately
- c) Input increase by some proportion and output less than the proportionately
- d) None of these

MTP Jun 22

23 A factor of production is said to be superior if its expenditure elasticity

- a) is negative
- b) lies in unit interval
- c) exceeds unity
- d) is zero

MTP Jun 22

24 Production function:  
 $Q = 4 \cdot L^{(1/2)} \cdot K^{(2/3)}$

- a) increasing returns to scale
- b) decreasing returns to scale
- c) constant returns to scale
- d) increasing returns to a factor

MTP Nov 22, May 23

25 In the Cobb-Douglas production function given as:  
 $Q = A \cdot L^a \cdot K^{(1-a)}$   
share of labour in total production is

- a) a
- b) 1 - a
- c) A
- d) aL

MTP Nov 22, A.Q.

26 Assertion (A): An iso-cost line is a straight line.  
Reason (R): The market rate of exchange between the two inputs is constant.

- a) (A) is true and (R) is false
- b) Both (A) and (R) are true & (R) is the correct explanation of (A)
- c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
- d) (A) is false and (R) is true

MTP Apr 21

27 The slope of isocost line is

- a)  $w/r$
- b)  $r/w$
- c)  $r \times w$
- d) None of these

MTP Jun 22

28 Which of the following is correct regarding the slope of iso-cost line? Slope of iso-cost line can change due to

1. Change in factor(s) price(s)
2. Change in total outlay or total cost.

- a) 1 only
- b) 2 only
- c) 1 & 2 both
- d) None of these

MTP Jun 22

29 Isoquant word is made up of two words i.e., Iso & Quant. Where Iso means equal then Quant means-

- a) Quantity sold
- b) Output
- c) Quantity demanded
- d) Quantity supplied

MTP Mar 22

30 Who describes production function as the relationship between the maximum amount of output can be produced and the input required to make that output :

- a) Samuelson
- b) Malthus
- c) Hicks
- d) None of these

MTP Dec 22, A.Q.

31 Cost incurred which has 'no relevance' to future planning are

- a) Marginal Cost
- b) Sunk Cost
- c) Book Cost
- d) Average Cost

MTP Apr 21

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

- a) Rent
- b) Wages
- c) Internal payments on borrowed financial capital
- d) None of these

MTP Mar 18, Apr 19, Oct 20

33 Suppose that an owner is earning total revenue of Rs. 1, 00,000 and is incurring explicit cost of Rs. 60,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that:

- a) The firm is earning economic profit or Rs. 10,000
- b) The firm is earning accounting profit or Rs. 40,000
- c) The firm is earning economic profit of Rs. 40,000
- d) Both (a) and (b)

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MTP Aug 18, May 20

34 If there are implicit costs of production:

- Economic profit will be equal to accounting profit.
- Economic profit will be less than accounting profit.
- economic profits will be zero.
- economic profit will be more than accounting profit

MTP Oct 19

35 In the production of wheat, all of the following are variable factors that are used by the farmer except-

- The seed and fertilizer used when the crop is planted
- The field that has been cleared of trees and in which the crop is planted
- The tractor used by the farmer in planting and cultivating not only wheat but also corn and barley
- The number of hours that the farmer spends in cultivating the wheat fields

MTP Oct 19

36 Example of Fixed cost is-

- Electricity bill
- Interest on loans
- Expenses on raw material
- Wages of daily workers

MTP Apr 19

37 Variable cost includes the cost of

- Buying land and building
- Hire charges of machinery
- Insurance premium
- Material bought

MTP Mar 19

38 Economic cost means

- Accounting cost + Implicit cost
- Accounting cost + Marginal cost
- Cash cost + Opportunity cost
- Implicit cost

MTP Mar 19

39 Suraj is a high school senior thinking about becoming an economic research assistant. Shyam just graduated from college with an economic degree and is looking for a job as an economic research assistant. For whom is the college tuition an opportunity cost?

- Suraj
- Shyam
- Both Suraj and Shyam
- Neither Suraj nor Shyam

Read the following paragraph and answer question no. 14

Nicole owns a small pottery factory. She can make 1,000 pieces of pottery per year and sell them for Rs. 100 each. It costs Nicole Rs. 20,000 for the raw materials to produce the 1,000 pieces of pottery. She has invested Rs. 1,00,000 in her factory and equipment: Rs. 50,000 from her savings and Rs. 50,000 borrowed at 10 percent. (Assume that she could have loaned her money out at 10 per cent too.) Nicole can work at a completing pottery factory for Rs. 40,000 per year.

MTP Oct 18

40 The economic profit at Nicole's factory is:

- Rs. 75,000
- Rs. 35,000
- Rs. 80,000
- Rs. 30,000

MTP Mar 22

41 Which of the following is not part of the opportunity cost of going on holiday?

- The money you spent on a theatre show
- The money you could have made if you had stayed at home and worked
- The money you spent on airline tickets
- The money you spent on food

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PYQ Jun 22

42 Total economic costs = explicit costs + Implicit cost + \_\_\_\_\_

- a) Super normal profit
- b) Super normal loss
- c) Normal profit
- d) Economic profit

MTP Nov 22

43 Given  $TC = 2000 + 15Q - 6Q^2 + Q^3$ , How much is TFC at  $Q = 2000$ ?

- a) 2000
- b) 975
- c) 30,000
- d) Can't be determined

A.Q.

44 The area of a rectangle formed by drawing perpendiculars on both axis from a point on AFC curve is equal to

- a) Total cost
- b) Marginal cost
- c) Average cost
- d) Total fixed cost

MTP Apr 21

45 The Shape of TC Curve of the monopolist is \_\_\_\_\_

- a) U Shape
- b) S Shape
- c) Inverse S Shape
- d) None of these

MTP Apr 21

46 A mfg. company has  $TFC = 120$  lakhs,  $TVC = 100Q + 7Q^2 + 0.25Q^3$  Calculate the MC?

- a)  $100 + 14Q + 0.75Q^2$
- b)  $120 + 7Q^2 + 0.25Q^3$
- c)  $100 + 7Q^2 + 0.25Q^3$
- d) 107.25

MTP Oct 19

47 The total cost of producing 30 units of output is Rs. 300. If average fixed cost at this level of output is Rs. 7, then the total variable cost will be -

- a) Rs. 160
- b) Rs. 140
- c) Rs. 90
- d) Rs. 120

A.Q.

48 The areas of all rectangles formed by drawing perpendiculars on both axis from different points on AFC curve are \_\_\_\_\_

- a) same
- b) different
- c) (A) or (B)
- d) can't be determined

MTP Mar 18

49 Suppose the short run cost function can be written as  $TC = 250 + 10Q$ . Average Fixed cost equals:

- a)  $250/Q$
- b) 250
- c) 10
- d)  $250/Q + 10$

PYQ Jun 22

50 Which cost decreases continuously with increase in production ?

- a) Average fixed cost
- b) Average variable cost
- c) Marginal cost
- d) Average total cost

Extra MCQ

51 A firm's average variable cost is Rs. 200 at 4 units of output and Rs. 230 at 5 units of output. Total Fixed Cost = Rs 100. The marginal cost of producing the 5th unit is ?

- a) Rs. 30
- b) Rs. 350
- c) Rs. 230
- d) Rs. 130





Extra MCQ

52 Marginal Cost is the slope of \_\_\_\_\_

- a) Total Cost
- b) Total Fixed Cost
- c) Total Variable Cost
- d) Both (a) & (c)

MTP Dec 22, A.Q.

53 Which of following is incorrect ?

- a)  $TC = AC \times Q$
- b)  $\sum MC = TC$
- c)  $\sum MC = TVC$
- d)  $\sum MC + TFC = TC$

MTP Apr 19

54 When average cost curve is rising then, marginal cost

- a) Must be decreasing
- b) Must be above the average cost curve
- c) Must be constant
- d) Must be equal to average cost

MTP Jun 22

55 Which of the following is correct regarding long run cost?  
 It is least cost of producing each level of output  
 LAC curve is envelope of SAC curves.  
 LAC is U-shaped

- a) 1 & 2 only
- b) 2 & 3 only
- c) 1 & 3 only
- d) 1, 2 & 3

MTP Dec 22

56 The reason behind the upward sloping portion of the long run cost curve is

- a) economy of scale
- b) diseconomy of scale
- c) diminishing marginal rate of substitution
- d) None of these

A.Q.

57 Diminishing returns are due to \_\_\_\_\_ and increasing returns are due to \_\_\_\_\_

- a) Internal diseconomies, internal economies
- b) Internal economies, internal diseconomies
- c) External diseconomies, internal economies
- d) Internal diseconomies, external economies

MTP Mar 21

58 Certain benefit an industry gets when it expands its scale of production is known as:

- a) Internal economies
- b) diseconomies
- c) external economies
- d) Profit

MTP Jun 22

59 Economies and diseconomies of scale explain why the

- a) short run average fixed cost curve declines so long as output increases.
- b) marginal cost curve must intersect the minimum point the firm's average variable cost curve.
- c) long run average cost curve is typically U-shaped.
- d) short run average total cost curve is U-shaped.

MTP Mar 21, Apr 23

60 The distinction between selling cost and production cost was made by:

- a) Chamberlin
- b) Sweezy
- c) Mrs Joan Robinson
- d) None of these

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MTP May 23

61 X, Y and Z are confused with the formula for defining TC  
 a) X Says :  $TC = TVC + TFC$   
 b) Y Says:  $TC = AC \times \text{output}$   
 c) Z Says:  $TC = \Sigma MC + TFC$   
 Identify who amongst them is correct

a) X  
 b) Y  
 c) Z  
 d) All of them

MTP May 23

62 Which curve is not affected by fixed cost?

a) MC Curve  
 b) TC Curve  
 c) AC Curve  
 d) AFC Curve

Answer Key – Economics Chapter 3

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

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CA Foundation – June 2024  
Business Economics

**Chapter 4**  
**PRICE DETERMINATION**  
**IN DIFFERENT MARKETS**

**ICAI SM MCQs**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR

UNIT 3

Basic

ICAI SM

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

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

- a) Rs. 2
- b) Rs. 3
- c) Rs. 4
- d) Rs. 5

ICAI SM

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

- a) Rs. 20
- b) Rs. 19
- c) Rs. 10
- d) Rs. 1

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

- a) Rs. 18
- b) Rs. 16
- c) -Rs. 12
- d) Rs. 28

ICAI SM

4 Suppose a firm is producing a level of output such that  $MR > MC$ , what should be firm do to maximize its profits?

- a) The firm should do nothing.
- b) The firm should hire less labour.
- c) The firm should increase price.
- d) The firm should increase output.

ICAI SM

5 Marginal Revenue is equal to:

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

ICAI SM

6 Suppose that a sole proprietorship is earning total revenues of Rs. 1,00,000 and is incurring explicit costs of Rs. 75,000. If the owner could work for another company for Rs. 30,000 a year, we would conclude that :

- a) The firm is incurring an economic loss.
- b) Implicit costs are Rs. 25,000.
- c) The total economic costs are Rs. 1,00,000.
- d) The individual is earning an economic profit of Rs. 25,000.

ICAI SM

7 Which of the following is not an essential condition of pure competition?

- a) Large number of buyers and sellers
- b) Homogeneous product
- c) Freedom of entry
- d) Absence of transport cost

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ICAI SM	
8	What is the shape of the demand curve faced by a firm under perfect competition?
a) Horizontal b) Vertical c) Positively sloped d) Negatively sloped	

ICAI SM	
9	Which is the first order condition for the profit of a firm to be maximum?
a) $AC = MR$ b) $MC = MR$ c) $MR = AR$ d) $AC = AR$	

ICAI SM	
10	Which of the following is not a characteristic of a "price-taker"?
a) $TR = P \times Q$ b) $AR = \text{Price}$ c) Negatively - sloped demand curve d) Marginal Revenue = Price	

ICAI SM	
11	Which of the following statements is false?
a) Economic costs include the opportunity costs of the resources owned by the firm. b) Accounting costs include only explicit costs. c) Economic profit will always be less than accounting profit if resources owned and used by the firm have any opportunity costs. d) Accounting profit is equal to total revenue less implicit costs.	

ICAI SM	
12	With a given supply curve, a decrease in demand causes
a) an overall decrease in price but an increase in equilibrium quantity. b) an overall increase in price but a decrease in equilibrium quantity. c) an overall decrease in price and a decrease in equilibrium quantity. d) no change in overall price but a reduction in equilibrium quantity.	

ICAI SM	
13	It is assumed in economic theory that
a) decision making within the firm is usually undertaken by managers, but never by the owners. b) the ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organisation. c) as the firm's size increases, so do its goals. d) the basic decision making unit of any firm is its owners.	

ICAI SM	
14	Assume that consumers' incomes and the number of sellers in the market for good A both decrease. Based upon this information, we can conclude, with certainty, that the equilibrium:
a) price will increase. b) price will decrease. c) quantity will increase. d) quantity will decrease.	

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ICAI SM

15 If supply increases in a greater proportion than demand

- a) The new equilibrium price and quantity will be greater than the original equilibrium price and quantity.
- b) The new equilibrium price will be greater than the original equilibrium price but equilibrium quantity will be higher.
- c) The new equilibrium price and quantity will be lower than the original equilibrium price and quantity.
- d) The new equilibrium price will be lower than the original equilibrium and the new equilibrium quantity will be higher.

ICAI SM

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

- a) an increase in equilibrium price and quantity.
- b) a decrease in equilibrium price and quantity.
- c) an increase in equilibrium quantity and uncertain effect on equilibrium price.
- d) a decrease in equilibrium price and increase in equilibrium quantity.

ICAI SM

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

- a) Price will increase; quantity cannot be determined.
- b) Price will decrease; quantity cannot be determined.
- c) Quantity will increase; price cannot be determined.
- d) Quantity will decrease; price cannot be determined.

ICAI SM

18 Which of the following is not a condition of perfect competition?

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

ICAI SM

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

- a) Large number of firms in the industry.
- b) Outputs of the firms are perfect substitutes for one another.
- c) Firms face downward-sloping demand curves.
- d) Resources are very mobile.





ICAI SM

20 Which of the following is not a characteristic of monopolistic competition?

- a) Ease of entry into the industry.
- b) Product differentiation.
- c) A relatively large number of sellers.
- d) A homogeneous product.

ICAI SM

21 Monopoly may arise in a product market because

- a) A significantly important resource for the production of the commodity is owned by a single firm.
- b) The government has given the firm patent right to produce the commodity.
- c) The costs of production and economies of scale makes production by a single producer more efficient.
- d) All the above.

22 Oligopolistic industries are characterized by:

- a) a few dominant firms and substantial barriers to entry.
- b) a few large firms and no entry barriers.
- c) a large number of small firms and no entry barriers.
- d) one dominant firm and low entry barriers.

23 Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be "small" relative to the market. Which of the following best describes this smallness?

- a) The individual firm must have fewer than 10 employees.
- b) The individual firm faces a downward-sloping demand curve.
- c) The individual firm has assets of less than Rs. 20 lakhs.
- d) The individual firm is unable to affect market price through its output decisions.

ICAI SM

24 For a price-taking firm:

- a) marginal revenue is less than price.
- b) marginal revenue is equal to price.
- c) marginal revenue is greater than price.
- d) the relationship between marginal revenue and price is indeterminate.

ICAI SM

25 Monopolistic competition differs from perfect competition primarily because

- a) in monopolistic competition, firms can differentiate their products.
- b) in perfect competition, firms can differentiate their products.
- c) in monopolistic competition, entry into the industry is blocked.
- d) in monopolistic competition, there are relatively few barriers to entry.

ICAI SM

26 The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures

- a) the efficient output level will be produced in the long run.
- b) firms will be producing at minimum average cost.
- c) firms will only earn a normal profit.
- d) firms realise all economies of scale.

ICAI SM

27 Which of the following is the distinguishing characteristic of oligopolies?

- a) A standardized product
- b) The goal of profit maximization
- c) The interdependence among firms
- d) Downward-sloping demand curves faced by firms.

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ICAI SM

28

In which form of the market structure is the degree of control over the price of its product by a firm very large?

- a) Monopoly
- b) Imperfect Competition
- c) Oligopoly
- d) Perfect competition

ICAI SM

29

Average revenue curve is also known as:

- a) Profit Curve
- b) Demand Curve
- c) Average Cost Curve
- d) Indifference Curve

ICAI SM

30

Under which of the following forms of market structure does a firm have no control over the price of its product?

- a) Monopoly
- b) Monopolistic competition
- c) Oligopoly
- d) Perfect competition

ICAI SM

31

Discriminating monopoly implies that the monopolist charges different prices for his commodity:

- a) from different groups of consumers
- b) for different uses
- c) at different places
- d) any of the above.

ICAI SM

32

Price discrimination will be profitable only if the elasticity of demand in different sub-markets is:

- a) uniform
- b) different
- c) less
- d) zero

ICAI SM

33

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

- a) Price and output determination
- b) Price rigidity
- c) Price leadership
- d) Collusion among rivals.

ICAI SM

34

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

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

ICAI SM

35

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

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





ICAI SM

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

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

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

ICAI SM

- 37 The kinked demand curve model of oligopoly assumes that

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

- 38 A firm encounters its "shutdown point" when:

- average total cost equals price at the profit-maximising level of output.
- average variable cost equals price at the profit-maximising level of output.
- average fixed cost equals price at the profit-maximising level of output.
- marginal cost equals price at the profit-maximising level of output.

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

- 41 A purely competitive firm's supply schedule in the short run is determined by

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

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ICAI SM

42

One characteristic not typical of oligopolistic industry is

- a) horizontal demand curve.
- b) too much importance to non-price competition.
- c) price leadership.
- d) a small number of firms in the industry.

ICAI SM

43

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

- a) perfectly competitive.
- b) monopolistic.
- c) monopolistically competitive.
- d) oligopolistic.

ICAI SM

44

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

- a) perfectly competitive.
- b) monopolistic.
- c) monopolistically competitive.
- d) oligopolistic.

ICAI SM

45

Which of the following statements is incorrect?

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

ICAI SM

46

Under perfect competition, in the long run, there will be no \_\_\_\_\_

- a) normal profits
- b) supernormal profits.
- c) production
- d) costs.

ICAI SM

47

When \_\_\_\_\_ we know that the firms are earning just normal profits

- a)  $AC = AR$
- b)  $MC = MR$
- c)  $MC = AC$
- d)  $AR = MR$

ICAI SM

48

When \_\_\_\_\_ we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.

- a)  $AC = AR$
- b)  $MC = AC$
- c)  $MC = MR$
- d)  $AR = MR$

ICAI SM

49

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

- a)  $MC = MR$
- b)  $MC = AC$
- c)  $MC = AR$
- d)  $AR = MR$

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ICAI SM	
50	Agricultural goods markets depict characteristics close to
a) perfect competition. b) oligopoly. c) monopoly. d) monopolistic competition.	

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

ICAI SM	
52	Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?
a) Electricity b) Cable television c) Cola d) Milk	

ICAI SM	
53	Which of the following statements is accurate regarding a perfectly competitive firm?
a) Demand curve is downward sloping b) The demand curve always lies above the marginal revenue curve c) Average revenue need not be equal to price d) Price is given and is determined by the equilibrium in the entire market	

ICAI SM	
54	The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as
a) Monopolistically competitive b) a monopoly c) an oligopoly d) perfectly competitive	

ICAI SM	
55	A market structure in which many firms sell products that are similar but not identical is known as
a) monopolistic competition b) monopoly c) perfect competition d) oligopoly	

ICAI SM	
56	When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is
a) more than the price charged by either monopoly or a competitive market b) less than the price charged by either monopoly or a competitive market c) more than the price charged by a monopoly and less than the price charged by a competitive market d) less than the price charged by a monopoly and more than the price charged by a competitive market.	

ICAI SM	
57	In the long-run equilibrium of a competitive market, firms operate at
a) the intersection of the marginal cost and marginal revenue b) their efficient scale c) zero economic profit d) all of these answers are correct	

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

ICAI SM	
59	In a very short period market:
a) the supply is fixed b) the demand is fixed c) demand and supply are fixed d) none of the above	

ICAI SM	
60	Time element was conceived by
a) Adam Smith b) Alfred Marshall c) Pigou d) Lionel Robinson	

ICAI SM	
61	Total revenue =
a) price $\times$ quantity b) price $\times$ income c) income $\times$ quantity d) none of the above	

ICAI SM	
62	Average revenue is the revenue earned
a) per unit of input b) per unit of output c) different units of input d) different units of output	

ICAI SM	
63	AR can be symbolically written as:
a) $MR / Q$ b) Price $\times$ quantity c) $TR / Q$ d) none of the above	

ICAI SM	
64	AR is also known as:
a) price b) income c) revenue d) none of the above	

ICAI SM	
65	Marginal revenue can be defined as the change in total revenue resulting from the:
a) purchase of an additional unit of a commodity b) sales of an additional unit of a commodity c) sale of subsequent units of a product d) none of the above	

ICAI SM	
66	When $e > 1$ then MR is
a) zero b) negative c) positive d) one	

ICAI SM	
67	When $e = 1$ then MR is
a) positive b) zero c) one d) negative	

ICAI SM	
68	When $e < 1$ then MR is
a) negative b) zero c) positive d) one	

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ICAI SM	
69	In Economics, the term 'market' refers to a:
a) place where buyer and seller bargain a product or service for a price b) place where buyer does not bargain c) place where seller does not bargain d) none of the above	

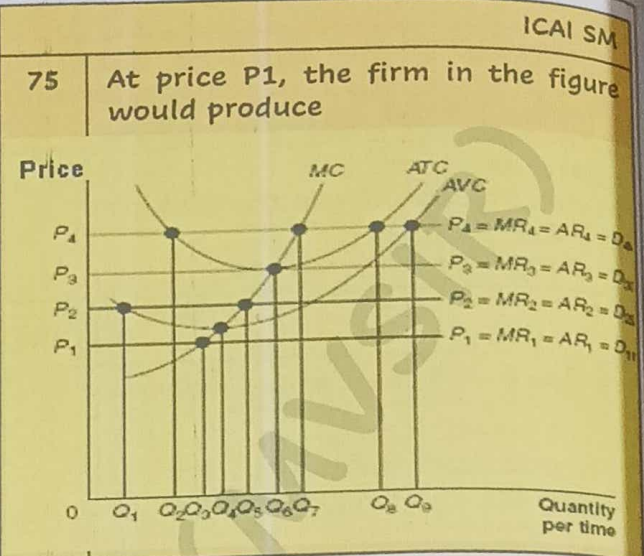
ICAI SM	
70	Under perfect competition a firm is the _ _ _
a) price-maker and not price-taker b) price-taker and not price-maker c) neither price-maker nor price-taker d) none of the above	

ICAI SM	
71	A Monopolist is a
a) price-maker b) price-taker c) price-adjuster d) none of the above	

ICAI SM	
72	Price discrimination is one of the features of _ _ _
a) monopolistic competition b) monopoly c) perfect competition d) oligopoly	

ICAI SM	
73	Under monopoly, the degree of control over price is:
a) none b) some c) very considerable d) none of the above	

74	Generally, perishable goods like butter, eggs, milk, vegetables etc., will have
a) regional market b) local market c) national market d) none of the above	



- a) Zero output
- b) Q<sub>3</sub>.
- c) Q<sub>5</sub>.
- d) Q<sub>6</sub>.

ICAI SM	
76	Secular period is also known as
a) very short period b) short period c) very long period d) long period	

ICAI SM	
77	Stock exchange market is an example of
a) unregulated market b) regulated market c) spot market d) none of the above	

ICAI SM	
78	The market for the ultimate consumers is known as
a) whole sale market b) regulated market c) unregulated market d) retail market	

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

ICAI SM	
80	Pure oligopoly is based on the _____ products
a) differentiated b) homogeneous c) unrelated d) none of the above	

ICAI SM	
81	In oligopoly, when the industry is dominated by one large firm which is considered as leader of the group, Then it is called:
a) full oligopoly b) collusive oligopoly c) partial oligopoly d) syndicated oligopoly	

ICAI SM	
82	When the products are sold through a centralized body, oligopoly is known as
a) organized oligopoly b) partial oligopoly c) competitive oligopoly d) syndicated oligopoly	

83	When the monopolist divides the consumers into separate sub markets and charges different prices in different sub-markets it is known as
a) first degree of price discrimination b) second degree of price discrimination c) third degree of price discrimination d) none of the above.	

ICAI SM	
84	Under _____ the monopolist will fix a price which will take away the entire consumers' surplus.
a) second degree of price discrimination b) first degree of price discrimination c) third degree of price discrimination d) none of the above.	

ICAI SM	
85	Price discrimination is related to
a) time b) size of the purchase c) income d) any of the above	

ICAI SM	
86	The firm and the industry are one and the same in _____
a) Perfect competition b) Monopolistic competition c) Duopoly d) Monopoly	

ICAI SM	
87	The demand curve of a monopoly firm will be _____
a) Upward sloping b) Downward sloping c) Horizontal d) Vertical	

ICAI SM	
88	If the average cost is higher than the average revenue then the firm incurs _____
a) Normal profit b) Abnormal profit c) Loss d) No profit, no loss	

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ICAI SM

**89** Which of the following statements is correct?

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

ICAI SM

**90** Which of the following statements is incorrect?

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

ICAI SM

**91** For market the essential condition is -

- a) A particular geographical place
- b) Control of the government
- c) Close contact between buyers and sellers
- d) None of these

ICAI SM

**92** Assume that when Price is Rs. 10, the quantity demanded is 5 units and when Price is Rs. 12 the quantity demanded is 4 units. Based on this information, what is the Marginal Revenue resulting from increase in output from 4 units to 5 units.

- a) Rs. 5
- b) Rs. 4
- c) Rs. 2
- d) Rs. 3

ICAI SM

**93** Average revenue is equal to.

- a) The change in P & Q due to unit change in output.
- b) Nothing but price of one unit of output.
- c) The change in quantity divided by change in price.
- d) Graphically it denotes the supply curve.

ICAI SM

**94** Example of a commodity which has an International Market.

- a) Perishable Goods.
- b) High Value and Small Commodities.
- c) Product whose trading is restricted by government.
- d) Bulky Articles.

ICAI SM

**95** Weekly market is example of \_\_\_\_\_ Market:

- a) Regulated Market
- b) Spot Market
- c) Forward Market
- d) Unregulated Market

ICAI SM

**96** Conditions for equilibrium of a firm are:

- a)  $MR = MC$
- b) MC should cut MR from below.
- c)  $MR = AR$  and MC should cut MR from below.
- d)  $MR = MC$  and MC should have a positive slope.

ICAI SM

**97** Natural Monopoly arises when

- a) There is enormous goodwill enjoyed by a firm.
- b) There are stringent legal and regulatory requirements.
- c) There are very large Economies of Scale.
- d) There are Business Combinations or Cartels.

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ICAI SM	
98	Price Discrimination cannot persist under the following market form:
a) Perfect Competition b) Monopoly c) Monopolistic d) Oligopoly	

ICAI SM	
99	Sweezy's Model explains the concept of price rigidity relating to following market form:
a) Oligopoly Market b) Perfect Competition Market c) Monopoly Market d) Monopolistic Market	

ICAI SM	
100	Combination of Monopoly Market and Monopsony Market is called as:
a) Duopoly Market b) Oligopoly Market c) Bilateral Monopoly Market d) Monopolistic Market	

ICAI SM	
101	Price varies by attributes such as location or by Customer Segment is _____ degree of Price Discrimination.
a) First b) Second c) Third d) Fourth	

**Answer Key – Chapter 4 (unit – 3)**

1.	(c)	2.	(c)	3.	(c)	4.	(d)	5.	(c)	6.	(a)
7.	(d)	8.	(a)	9.	(b)	10.	(c)	11.	(d)	12.	(c)
13.	(b)	14.	(d)	15.	(d)	16.	(c)	17.	(c)	18.	(c)
19.	(c)	20.	(d)	21.	(d)	22.	(a)	23.	(d)	24.	(b)
25.	(a)	26.	(c)	27.	(c)	28.	(a)	29.	(b)	30.	(d)
31.	(d)	32.	(b)	33.	(b)	34.	(b)	35.	(c)	36.	(c)
37.	(b)	38.	(b)	39.	(d)	40.	(d)	41.	(d)	42.	(a)
43.	(c)	44.	(d)	45.	(c)	46.	(b)	47.	(a)	48.	(b)
49.	(c)	50.	(a)	51.	(c)	52.	(d)	53.	(d)	54.	(c)
55.	(a)	56.	(d)	57.	(d)	58.	(b)	59.	(a)	60.	(b)
61.	(a)	62.	(b)	63.	(c)	64.	(a)	65.	(b)	66.	(c)
67.	(b)	68.	(a)	69.	(a)	70.	(b)	71.	(a)	72.	(b)
73.	(c)	74.	(b)	75.	(a)	76.	(c)	77.	(b)	78.	(d)
79.	(c)	80.	(b)	81.	(c)	82.	(d)	83.	(c)	84.	(b)
85.	(d)	86.	(d)	87.	(b)	88.	(c)	89.	(d)	90.	(c)
91.	(c)	92.	(c)	93.	(b)	94.	(b)	95.	(d)	96.	(d)
97.	(c)	98.	(a)	99.	(a)	100.	(c)	101.	(c)		

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CA Foundation – June 2024  
Business Economics

**Chapter 4**  
**PRICE DETERMINATION**  
**IN DIFFERENT MARKETS**

**Extra MCQs for Practice**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR

MTP Mar 21, SEQ

1 The opportunity cost of a good is

- a) the time lost in finding it
- b) the quantity of other goods sacrificed to get another unit of that good
- c) the expenditure on the good
- d) the loss of interest in using saving

MTP Mar 19

2 Economic goods are goods which:

- a) Cannot be increased in quantity
- b) Obey the law of Micro Economics
- c) Are limited in supply and are scarce
- d) Are limited to man-made goods.

MTP Jun 22

3 In economics, we are concerned with

- a) Value in use only
- b) Exchange value only
- c) Both value in use and exchange value
- d) None of the above

MTP Nov 22

4 Value in exchange is also known as

- a) Value in use
- b) Economic value
- c) Both (a) and (b)
- d) None of these

MTP Nov 22

5 Which one of the following features of the term market is incorrect?

- a) Market is the collection of buyers and sellers with the potential to trade.
- b) A market need not be a formal.
- c) A market need not to be held in a particular place.
- d) A market must be formal or to be held in a particular place.

MTP Nov 22

6 The study of demand and supply model is useful in explaining

- a) How government works
- b) How markets work
- c) How consumers behave
- d) None of these

MTP Dec 22, PYQ Jun 23

7 On the basis of nature of transaction the market is classified into

- a) Regulated and Unregulated market
- b) Wholesale and Retail market
- c) Spot and future Market
- d) None of these

PYQ Jun 22

8 When commodities are sold in small quantities are called as which of the following?

- a) Wholesale market
- b) Regulated market
- c) Spot market
- d) Retail market

MTP Oct 18, SEQ

9 If a seller realizes Rs. 10,000 after selling 100 units and Rs. 14,000 after selling 120 units. What is the marginal revenue here?

- a) Rs. 4000
- b) Rs. 450
- c) Rs. 200
- d) Rs. 100

A.Q.

10 If the price of a product is Rs.20/unit and its price elasticity of demand is (-) 0.25. Its MR will be

- a) 60
- b) 100
- c) - 60
- d) None of these





MTP Jun 22, MTP Nov 22

11 When total revenue is increasing

- a) Marginal revenue may be either positive or negative.
- b) The demand curve is relatively inelastic.
- c) Marginal revenue is positive.
- d) Marginal revenue is negative.

PYQ Jun 22

12 Which of the following statement is not correct ?

- a) Marginal revenue is the revenue of an additional unit sold of a commodity
- b) Total revenue is obtained by multiplying the total number of units sold with the price per unit of a commodity
- c) Average revenue is the revenue earned per unit of an output
- d) Total revenue is the sum total of average revenue

MTP Oct 19, Oct 21, SEQ, ICAI SM, MTP Mar 18, Apr 19

13 A firm encounters its "shutdown point" when:

- a) average total cost equals price at the profit-maximising level of output.
- b) average variable cost equals price at the profit-maximising level of output.
- c) average fixed cost equals price at the profit-maximising level of output.
- d) marginal cost equals price at the profit-maximising level of output.

MTP Aug 18, May 20

14 "I am making a loss, but with the rent I have to pay, I can't afford to shut down at this point of time." If this entrepreneur is attempting to maximize profits or minimize losses, his behavior in the short run is:

- a) Rational, if the firm is covering its variable cost
- b) Rational, if the firm is covering its fixed cost
- c) Irrational, since plant closing is necessary to eliminate losses
- d) Irrational, since fixed costs are eliminated if a firm shuts down

MTP Mar 18, Aug 18, Oct 21

15 In the long run any firm will eventually leave the industry if

- a) Price does not at least cover average total cost.
- b) Price does not equal marginal cost.
- c) Economies of scale are being reaped.
- d) Price is greater than long run average cost

PYQ Jun 23

16 Which one of the following is not element of market

- a) Buyer
- b) Service
- c) Firm
- d) Bargaining for price

MTP Mar 21

17 A rise in supply and demand in equal proportion will result in

- a) Increase in equilibrium price and decrease in equilibrium quantity
- b) decrease in equilibrium price and increase in equilibrium quantity
- c) no change in equilibrium price and increase in equilibrium quantity
- d) increase in equilibrium price and no change in equilibrium quantity

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MTP Oct 18	
18	A drought in India leads to unusually low level of wheat production. This would lead to a rise in price of wheat and fall in the quantity of wheat demanded due to:
a) excess demand at the original price. b) excess supply at the original price. c) the supply curve shifting to the right. d) the demand curve shifting to the left	

MTP Aug 18	
19	Suppose consumer tastes shift toward the consumption of apples. Which of the following statements is an accurate description of the impact of this event on the market for apples?
a) There is an increase in the quantity demanded of apples and in the supply for apples b) There is an increase in the demand and supply of apples. c) There is an increase in the demand for apples and a decrease in the supply of apples. d) There is an increase in the demand for apples and an increase in the quantity supplied.	

MTP Mar 18	
20	In perfectly competitive firm, MC curve above AVC is _____ Curve of firm
a) Average cost b) Marginal revenue c) Demand d) Supply	

Extra MCQ	
21	In _____ market, price being given, a firm decides only about the output.
a) Monopoly b) Monopolistic competition c) Oligopoly d) Perfect competition	

SEQ	
22	A perfectly competitive firm has control over
a) price b) production as well as price c) production, price and consumers d) none of the above	

MTP Oct 21, MTP Mar 22, SEQ	
23	Full capacity is utilized only when there is
a) Monopoly b) Perfect competition c) Price discrimination d) Oligopoly	

MTP Aug 18, SEQ	
24	If a competitive firm doubles its output, its total revenue:
a) doubles. b) more than doubles. c) less than doubles. d) cannot be determined because the price of the good may rise or fall	

MTP Oct 18, SEQ	
25	In the short run if a perfectly competitive firm finds itself operating at a loss, it will:
a) Reduce the size of its plant to lower fixed costs. b) Raise the price of its product. c) Shutdown. d) Continue to operate as long as it covers its variable cost	

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A competitive firm sells as much as of its product it chooses at a market price of Rs. 100 per unit. Its fixed cost is Rs. 300 and its variable costs (in rupees) for different levels of production are shown in the following table. Use Table to answer questions 27 – 29

A.Q.

26 For a competitive firm, long period normal price will

a) Equal AC and MC of production  
 b) Equal MC of production only  
 c) Equal TC of production only  
 d) None of these

Quantity	Variable Cost	Fixed Cost	Total Cost	AVC	ATC	MC
0	0	-	-	-	-	-
5	270					
10	490					
15	720					
20	1000					
25	1370					
30	1870					
35	2540					
40	3420					
45	4550					
50	5970					

27 When production is 35 units, the average variable cost is \_\_\_\_\_:

a) Rs. 7.25  
 b) Rs. 72.25  
 c) Rs. 72.57  
 d) Rs. 85.50

28 In the table marginal cost per unit that corresponds to 25 units of production is

a) Rs. 3.50  
 b) Rs. 74  
 c) Rs. 450  
 d) Rs. 370

30 If the market price drops from Rs. 100 to Rs. 74, the firm short run response should be: \_\_\_\_\_

a) Continue to produce the same number of units as before the drop in price  
 b) Produce 10 units  
 c) Produce 20 units  
 d) Produce 25 units

MTP Oct 21, MTP Mar 22, SEQ

29 To maximize output, the firm should produce

a) 30  
 b) 35  
 c) 45  
 d) 50

A.Q.

31 A firm reaches a break-even point (normal profit position) where,

a) Marginal revenue curve cuts the horizontal axis.  
 b) Marginal cost curve intersects the average variable cost curve.  
 c) Total revenue equals total variable cost.  
 d) Total revenue and total cost are equal.

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MTP Apr 21

32 Raw materials and other factors of production is not monopolised, and labour is not unionised in which form of market structure:

a) Monopoly  
 b) Perfect Competition  
 c) Monopolistic Competition  
 d) Oligopoly

MTP Apr 21

33 Wild Animals had destroyed the entire crops of a farmer what effect it will have on the price in perfect competition:

a) Price will remain constant  
 b) Price will decrease  
 c) Price will increase  
 d) None of these

MTP Oct 21, Mar 21

34 In which type of market buyers have no preference between different sellers and between different units of commodity offered for sale?

a) Monopoly  
 b) Perfect competition  
 c) Monopolistic competition  
 d) Oligopoly

MTP Mar 21

35 Foreign Exchange market is an example of -

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

MTP Oct 18, Oct 21

36 Price taker firms :

a) Advertise to increase the demand for their products.  
 b) Do not advertise because most advertising is harmful for the society.  
 c) Do not advertise because they can sell as much as they want at the current price.  
 d) Who advertise will get more profits than those who do not

MTP Nov 22, MTP Oct 18 May 20

37 Excess capacity is not found under \_\_\_\_\_

a) doubles.  
 b) more than doubles.  
 c) less than doubles.  
 d) cannot be determined because the price of the good may rise or fall

MTP Mar 18, MTP Mar 19

38 In the long run, normal profits are included in the \_\_\_\_\_ curve.

a) LAC  
 b) LMC  
 c) AFC  
 d) SAC

MTP Mar 22

39 In the short run level of output the firm at the optimum will be:

a) Minimizing total losses  
 b) Maximizing total profit  
 c) Either maximizing total profit or minimizing total losses  
 d) None of these

MTP Mar 21

40 When firm is in long run equilibrium in perfect competition, which of following is not true -

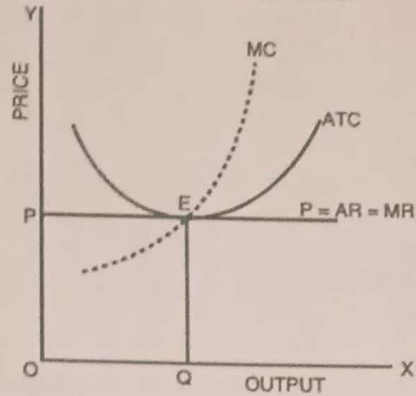
a)  $AC = MR$   
 b)  $TR = TC$   
 c) firm will earn supernormal profit  
 d) None of these

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Extra MCQ

Here, PC firm is \_\_\_\_\_



41

- a) Incurring Losses
- b) Earning super-normal profit
- c) Earning normal profit
- d) Any of the above

Extra MCQ

42

In case of Monopolistic Competition, the less differentiated the product is from its competitors, the \_\_\_\_\_ demand curve will be

- a) Less elastic
- b) More elastic
- c) More steeper
- d) None of the above

MTP Nov 22, A.Q.

43

The monopolistically competitive seller's demand curve will become more elastic, the

- a) more significant the barriers to entering the industry.
- b) Greater the degree of product differentiation.
- c) larger the number of competitors.
- d) smaller the number of competitors

MTP Apr 21

44

Shampoo manufactures is an example of :

- a) Perfect Competition
- b) Monopolistic Competition
- c) Monopoly
- d) None of these

MTP Mar 21

45

The dilemma faced by a Monopolistic is setting \_\_\_\_\_.

- a) Price
- b) Output
- c) Both a and b
- d) Either a or b

MTP Apr 21

46

Monopolistic Competition theory architect was :

- a) Roden
- b) Marx
- c) J R Hicks
- d) Chamberlin

MTP Mar 21

47

Which is not the characteristics of monopolistic competition:

- a) Large number of sellers
- b) homogeneous Product
- c) freedom of entry and exit
- d) non price discrimination

MTP Mar 21

48

Average revenue curve is more elastic under monopolistic competition than monopoly due to

- a) low degree of governmental control
- b) lack of close substitute
- c) availability of close substitute
- d) none of these

MTP Oct 21

49

A Monopolistic Competitive firm advertises :

- a) Because it has no control over price of its product.
- b) To lower its cost of production
- c) To increase its sales and profits
- d) Because it cannot raise price of its product

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MTP Mar 19

50 Excess Capacity is the essential characteristic of the firm in the market form of:

- a) Monopoly
- b) Perfect competition
- c) Monopolistic competition
- d) Oligopoly

MTP Aug 18

51 The sale of branded articles is common in a situation of \_\_\_\_\_

- a) Excess capacity
- b) Monopolistic competition
- c) Monopoly
- d) Pure competition

MTP Dec 22

52 When the industry is in long-run equilibrium, the monopolistic competitor will produce at the lowest point on its LAC curve,

- a) always
- b) never
- c) sometimes
- d) cannot say.

PYQ Jun 22

53 Non-price competition is observed in which type of following market?

- a) Monopoly
- b) Monopolistic competition
- c) Duopoly
- d) Oligopoly

MTP Oct 18, SEQ

54 In monopoly, the relationship between average and marginal revenue curves is as follows:

- a) AR curve lies above the MR curve
- b) AR curve coincides with the MR curve
- c) AR curve lies below the MR curve
- d) AR curve is parallel to the MR curve

MTP Aug 18, SEQ

55 Which of the following statements about price and marginal cost in competitive and monopolized markets is true?

- a) In competitive markets, price equals marginal cost; in monopolized markets, price equals marginal cost.
- b) In competitive markets, price exceeds marginal cost; in monopolized markets, price exceeds marginal cost.
- c) In competitive markets, price equals marginal cost; in monopolized markets, price exceeds marginal cost.
- d) In competitive markets, price exceeds marginal cost; in monopolized markets, price equals marginal cost.

A.Q.

56 With respect to the pure monopolist's demand curve it can be said that

- a) The stronger the barrier to entry, the more elastic is the monopolist's demand curve.
- b) Price exceeds marginal revenue at all outputs greater than 1.
- c) Demand is perfectly inelastic.
- d) Marginal revenue equals price at all outputs

A.Q.

57 If a monopolist could perfectly discriminate the which of the following statements would be true?

- a) Every increment of the goods would be priced separately so as to capture the entire consumer surplus.
- b) Every increment of the goods would be priced evenly.
- c) Every increment of goods would be priced higher than the previous one.
- d) Every increment of goods would be priced lower than the previous one.

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MTP Apr 21, Apr 23

58 Unique supply curve in monopoly is not due to \_\_\_\_\_

- a)  $P > MC$
- b)  $P < MC$
- c)  $P = MC$
- d) None of these

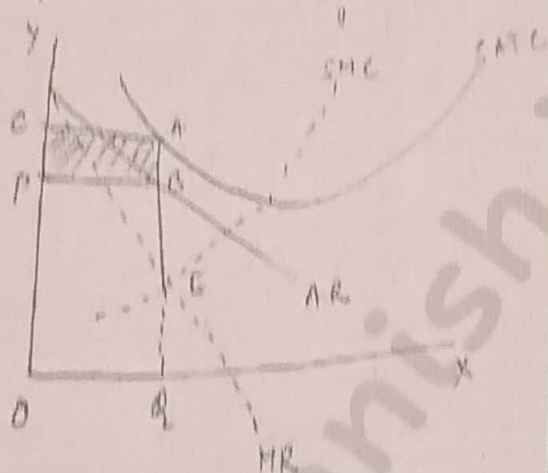
MTP Mar 22

59 Cross elasticity of demand for the monopolist's product or any other product is \_\_\_\_\_

- a) Zero
- b) Very small
- c) High
- d) Either (a) or (b)

MTP Apr 21

In the following diagram the Monopolist is incurring



60

- a) Losses
- b) Profit
- c) Super normal profit
- d) None of these

MTP Mar 21

61 Dynamic fare charged by Indian railways is an example of :

- a) pure monopoly
- b) discriminating monopoly
- c) perfect competition
- d) none of these

MTP Mar 21

62 The shape of TR curve of the monopolist is :

- a) u shaped
- b) inverted u shaped
- c) downward sloping
- d) none of these

MTP Aug 18

63 A monopolist who is selling in two markets in which demand is identical will be unable to maximize his profits unless he

- a) Sells below costs of production in both markets
- b) Practices price discrimination.
- c) Equates the volume of sales in both markets.
- d) Equates marginal costs with marginal revenue in one market only

MTP Nov 22, MTP Oct 18

64 Monopolies are allocatively inefficient because:

- a) They restrict the output to keep the price higher than under perfect competition.
- b) They charge a price higher than the marginal cost.
- c) Both (a) and (b) are correct.
- d) Both (a) and (b) are incorrect

Extra MCQ

65 Family pack of soaps or biscuits tends to cost less per kg than smaller packs. It is case of

- a) First degree of price discrimination
- b) Second degree of price discrimination
- c) Third degree of price discrimination
- d) Fourth degree of price discrimination



MTP Jun 22

66 Marginal Revenue of a monopoly firm is less than the price because

- a) Demand curve has a positive slope.
- b) Demand curve has a negative slope.
- c) Monopolist incurs losses.
- d) Monopolist is in equilibrium.

MTP Mar 22, Apr 23

67 If the monopolist incur losses in the short run then in the long run:

- a) It will stay in the business
- b) Go out of business
- c) Will break even
- d) Any of the above is possible

MTP Mar 22

68 A cartel which is market sharing will reach the monopoly situation:

- a) Always when the product is homogenous
- b) Always when the product is differentiated
- c) Sometime
- d) None of these

MTP Mar 22

69 The price elasticity for demand for monopolist's product is :

- a)  $< 1$
- b)  $> 1$
- c)  $= 0$
- d) None of these

MTP Nov 22

70 A monopolized market is in long run equilibrium when

- a) Zero economic profit is earned by the monopolist
- b) Production takes place where price is equal to long run MC and AC
- c) Production takes place where long run MC is equal to MR and price is not below the long run average cost.
- d) All of the above are correct

SEQ

71 If oligopolists engage in collusion and successfully form a cartel, the market outcome is

- a) The same as if it were served by a monopoly
- b) The same as if it were served by competitive firms
- c) Efficient because cooperation improves efficiency
- d) Known as Nash equilibrium

MTP Oct 18

72 Which one of the following is the best example of agreement between oligopolists?

- a) GATT
- b) OPEC
- c) WTO
- d) UNIDO

MTP Dec 22

73 In the kinked demand curve models, the oligopolists

- a) Recognize their interdependence
- b) Do not collude
- c) Tend to keep prices constant
- d) All of the above

MTP Nov 22

A point of 'Kink' in the kinked demand curve indicates

- 74
- I. Price rigidity
  - II. Quantity rigidity
  - III. Price flexibility
  - IV. Quantity flexibility

- a) I & II are correct
- b) II & III are correct
- c) III & IV are correct
- d) I & IV are correct

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PYQ Jun 22

75 The elasticity of demand on the upper segment of a kinked demand curve will be \_\_\_\_\_

a) Infinite  
b) Equal to one  
c) Greater than one  
d) Less than one

A.Q.

76 Imperfect competition arises when

a) There is imperfect rivalry among competitors  
b) There are unexplainable imperfections in the market  
c) Competition does not exist  
d) Product variation, ignorance of consumers and distance & transportation costs lead to imperfection in the competitive market which operates on certain assumptions.

A.Q.

77 Marginal cost is equal to marginal revenue, average cost is equal to average revenue, average revenue is equal to marginal revenue and average cost is equal to marginal cost. This is the condition of-

1. Long period equilibrium for a firm under oligopoly
2. Short period equilibrium for a firm under oligopoly
3. Long period equilibrium
4. Long period equilibrium for a firm under perfect competition
5. Short period equilibrium for a firm under perfect competition

a) 1 & 5 only  
b) 3 & 4 only  
c) 3 & 1 only  
d) 2 only

MTP Apr 24

78 Cinema Halls, Telephone bills etc are following

a) Differential Pricing  
b) Full cost pricing  
c) Marginal Cost Pricing  
d) None of these

MTP Mar 24

79 The Government offer minimum assured price to the farmers to purchase their output is called:

a) market Price  
b) support Price  
c) equilibrium Price  
d) ceiling Price

PYQ Jun 22

80 If the market demand curve for a commodity has a negative slope then the market structure must be:

a) Perfect competition  
b) Monopoly  
c) Imperfect competition  
d) The market structure cannot be determined as the information is insufficient

The following Table provides cost and price information for a firm called Comfy Cushions (CC). The firm produces and sells cushions using a fixed amount of capital equipment but can change the level of inputs such a labour and materials. Read the Table and answer questions 81-85



Production (Q)	Price per unit (P)	Total Cost (TC)	Average total cost (ATC)	Marginal Cost (MC)	Total Revenue (TR)	Marginal Revenue (per unit) (MR)
0	250	500				
1	240	730				
2	230	870				
3	220	950				
4	210	1010				
5	200	1090				
6	190	1230				
7	180	1470				
8	170	1850				
9	160	2410				

MTP Mar 18

81

What is the value of fixed cost incurred by CC?

- a) Rs. 252
- b) Rs. 730
- c) Rs. 500
- d) cannot be determined

MTP Mar 18

82

What is the average total cost when 5 units are produced?

- a) Rs. 218
- b) Rs. 1090
- c) Rs. 730
- d) Rs. 210

MTP Mar 18

83

What is the marginal revenue (per unit) when production increase from 7 units to 8 units?

- a) 160
- b) 140
- c) 120
- d) 100

MTP Mar 18

84

What is the marginal cost when production increase from 3 to 4 units?

- a) 140
- b) 80
- c) 60
- d) 240

MTP Mar 18

85

To maximize its profit or minimize its loss, what level of production should CC choose?

- a) 7 units
- b) 6 units
- c) 4 units
- d) 8 units

MTP Mar 18

86

At the profit maximizing level, what price should be charged?

- a) Rs. 190
- b) Rs. 200
- c) Rs. 210
- d) Rs. 220

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MTP Mar 18	
87	Calculate CC's maximum profit or minimum loss.
a) Loss of Rs. 100 b) Loss of Rs. 60 c) Profit of Rs. 90 d) Loss of Rs. 90	

Extra MCQ	
88	This type of oligopoly tends to process raw process raw materials or produce intermediate goods that are used as inputs by other industries
a) Open Oligopoly b) Collusive Oligopoly c) Pure Oligopoly d) Full Oligopoly	

PYQ Jun 23	
89	_____ is not an objective of price discrimination
a) To enjoy economics of scale b) To dispose of surplus stock c) To escape foreign market d) To secure equity through pricing	



## Answer Key - Economics Chapter 4

1	B	21	D	41	C	61	B	81	C
2	C	22	D	42	B	62	B	82	A
3	B	23	B	43	C	63	B	83	D
4	B	24	A	44	B	64	C	84	C
5	D	25	D	45	D	65	B	85	B
6	B	26	A	46	D	66	B	86	A
7	C	27	C	47	B	67	D	87	D
8	D	28	B	48	C	68	C	88	C
9	C	29	A	49	C	69	A	89	C
10	C	30	D	50	C	70	C		
11	C	31	D	51	B	71	A		
12	D	32	B	52	B	72	B		
13	B	33	A	53	B	73	D		
14	A	34	B	54	A	74	A		
15	A	35	A	55	C	75	D		
16	C	36	C	56	B	76	D		
17	C	37	C	57	A	77	B		
18	A	38	A	58	A	78	A		
19	D	39	C	59	D	79	B		
20	D	40	C	60	A	80	D		

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CA Foundation – June 2024  
Business Economics

## **Chapter 5**

### **BUSINESS CYCLES**

**ICAI SM MCQs**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



## Basic

Basic		ICAI SM
1	The term business cycle refers to	ICAI SM
	<ul style="list-style-type: none"> <li>a) the ups and downs in production of commodities</li> <li>b) the fluctuating levels of economic activity over a period of time</li> <li>c) decline in economic activities over prolonged period of time</li> <li>d) increasing unemployment rate and diminishing rate of savings</li> </ul>	<ul style="list-style-type: none"> <li>a) a variable that tends to move along with the level of economic activity</li> <li>b) a variable that tends to move in advance of aggregate economic activity</li> <li>c) a variable that tends to move consequent on the level of aggregate economic activity</li> <li>d) None of the above</li> </ul>
2	A significant decline in general economic activity extending over a period of time is	ICAI SM
	<ul style="list-style-type: none"> <li>a) business cycle</li> <li>b) contraction phase</li> <li>c) recession</li> <li>d) recovery</li> </ul>	<ul style="list-style-type: none"> <li>a) a leading variable.</li> <li>b) a coincident variable.</li> <li>c) a lagging variable.</li> <li>d) a cyclical variable.</li> </ul>
3	The trough of a business cycle occurs when _____ hits its lowest point.	ICAI SM
	<ul style="list-style-type: none"> <li>a) inflation in the economy</li> <li>b) the money supply</li> <li>c) aggregate economic activity</li> <li>d) the unemployment rate</li> </ul>	<ul style="list-style-type: none"> <li>a) Durable goods and service sectors.</li> <li>b) Non-durable goods and service sectors.</li> <li>c) Capital goods and non-durable goods sectors.</li> <li>d) Capital goods and durable goods sectors.</li> </ul>
4	The lowest point in the business cycle is referred to as the	ICAI SM
	<ul style="list-style-type: none"> <li>a) Expansion.</li> <li>b) Boom.</li> <li>c) Peak.</li> <li>d) Trough.</li> </ul>	<ul style="list-style-type: none"> <li>a) the aggregate demand curve to shift to the right.</li> <li>b) the aggregate demand curve to shift to the left.</li> <li>c) a movement down and to the right along the aggregate demand curve.</li> <li>d) a movement up and to the left along the aggregate demand curve.</li> </ul>
5	A leading indicator is	ICAI SM
6	A variable that tends to move later than aggregate economic activity is called	ICAI SM
7	Industries that are extremely sensitive to the business cycle are the	ICAI SM
8	A decrease in government spending would cause	ICAI SM

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ICAI SM

9 Which of the following does not occur during an expansion?

- a) Consumer purchases of all types of goods tend to increase.
- b) Employment increases as demand for labour rises.
- c) Business profits and business confidence tend to increase
- d) None of the above.

ICAI SM

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

- a) Economic expansions are followed by economic contractions.
- b) Inflation is followed by rising income and unemployment.
- c) Economic expansions are followed by economic growth and development.
- d) Stagflation is followed by inflationary economic growth.

ICAI SM

11 During recession, the unemployment rate \_\_\_ and output \_\_\_

- a) Rises; falls
- b) Rises; rises
- c) Falls; rises
- d) Falls; falls

ICAI SM

12 The four phases of the business cycle are

- a) expansion, peak, contraction and trough
- b) contraction, expansion, trough and boom
- c) expansion contraction, peak, and trough
- d) peak, depression, bust, and boom

13

Leading economic indicators

- a) are used to forecast probable in economic policies
- b) are generally used to forecast economic fluctuations of stock
- c) are indicators of existing in an economy
- d) are indicators of probable recession and depression

14

When aggregate economic activity is declining, the economy is

- a) Contraction.
- b) an expansion.
- c) a trough.
- d) a turning point.

15

Peaks and troughs of the business cycle are known collectively as

- a) Volatility.
- b) Turning points.
- c) Equilibrium points.
- d) Real business cycle events.

16

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

- a) interest rates to rise, investment spending to rise, and aggregate demand to rise
- b) interest rates to rise, investment spending to fall, and aggregate demand to fall
- c) interest rates to fall, investment spending to rise, and aggregate demand to rise
- d) interest rates to fall, investment spending to fall, and aggregate demand to fall





ICAI SM	
17	Which of the following is not a characteristic of business cycles?
<ul style="list-style-type: none"> <li>a) Business cycles have serious consequences on the well-being of the society.</li> <li>b) Business cycles occur periodically, although they do not exhibit the same regularity.</li> <li>c) Business cycles have uniform characteristics and causes.</li> <li>d) Business cycles are contagious and unpredictable.</li> </ul>	

ICAI SM	
18	Economic recession shares all of these characteristics except.
<ul style="list-style-type: none"> <li>a) Fall in the levels of investment, employment</li> <li>b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services</li> <li>c) Investor confidence is adversely affected and new investments may not be forthcoming</li> <li>d) Increase in the price of inputs due to increased demand for inputs</li> </ul>	

ICAI SM	
19	The different phases of a business cycle
<ul style="list-style-type: none"> <li>a) do not have the same length and severity</li> <li>b) expansion phase always last more than ten years</li> <li>c) last many years and are difficult to get over in short periods</li> <li>d) none of the above</li> </ul>	

ICAI SM	
20	Which of the following is not an example of coincident indicator?
<ul style="list-style-type: none"> <li>a) Industrial production</li> <li>b) inflation</li> <li>c) Retail sales</li> <li>d) New orders for plant and equipment</li> </ul>	

ICAI SM	
21	According to _____ trade cycles occur due to onset of innovations.
<ul style="list-style-type: none"> <li>a) Hawtrey</li> <li>b) Adam Smith</li> <li>c) J M Keynes</li> <li>d) Schumpeter</li> </ul>	

ICAI SM	
22	Economic indicators are -
<ul style="list-style-type: none"> <li>a) A one stroke solution to check the phase of economy</li> <li>b) Indicators showing the movement of economy</li> <li>c) Some activities which predict the direction of economy</li> <li>d) Just an illusion</li> </ul>	

ICAI SM	
23	Which economic indicator is required to predict the turning point of business cycle?
<ul style="list-style-type: none"> <li>a) Leading indicator</li> <li>b) Lagging indicator</li> <li>c) Coincident</li> <li>d) All of the above</li> </ul>	

ICAI SM	
24	Business cycle generally originates in free market economies, what is a free market economy?
<ul style="list-style-type: none"> <li>a) The economy where government is in possession of major assets</li> <li>b) The economy where private firms control major assets</li> <li>c) The economy where decisions of productions are taken by public sector undertakings</li> <li>d) The economy where price is controlled by government.</li> </ul>	

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ICAI SM

25 Which of the following statements is correct?

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

28 Economists use changes in variety of activities to measure the business cycle and to predict where the economy is headed towards which are called \_\_\_\_\_.

a) Signals  
 b) Indicators  
 c) Barometer  
 d) Clues

ICAI SM

29 If the growth rate of population is higher than the rate of economic growth, there will be \_\_\_\_\_ in the economy.

a) more savings  
 b) no effect on savings  
 c) lesser savings  
 d) none of these

ICAI SM

30 The cobweb theory was propounded by \_\_\_\_\_.

a) Hawtrey  
 b) Adam Smith  
 c) J M Keynes  
 d) Nicholas Kaldor

**Answer Key – Chapter 5**

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

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CA Foundation – June 2024  
Business Economics

**Chapter 5**  
**BUSINESS CYCLES**

**Extra MCQs for Practice**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR





PYQ Jun 23

1 \_\_\_\_\_ is not a phase of business cycle

- a) Peak
- b) Trough
- c) Expansion
- d) reconstruction

MTP Mar 18

2 During 1920s, UK saw rapid growth in GDP, production levels and living standards. The economic growth also caused an unprecedented rise in stock market values. This is an example of:

- a) Boom
- b) Recession
- c) Contraction
- d) Trough

A.Q., MTP Apr 23

3 Cost of living increases when business cycle is \_\_\_\_\_

- a) at peak
- b) contracting
- c) expanding
- d) at lowest point

PYQ Jun 23

4 Increase in national output and other economic variable is a characteristic of in Business cycles

- a) Trough
- b) Depression
- c) Contraction
- d) Expansion

5 During an upturn in business cycle negative output gap does become much more negative than it was. This is because of the fact

- a) Capacity increases because of rise in investment.
- b) Expenditure decreases because the rise in the interest rate.
- c) The government lowers the tax during an upturn.
- d) Labour productivity decreases during upturn.

MTP Apr 2

6 A rise in sale of which type of goods is expected in the case of recession:

- a) Luxury
- b) Necessity
- c) Inferior
- d) Normal

PYQ Jun 2

7 Peaks and troughs of the business cycle are known collectively as

- a) Volatility.
- b) Turning points.
- c) Equilibrium points.
- d) Real business cycle events

MTP Jun 22, May 2

8 Peak is the \_\_\_\_\_ stage of expansion.

- a) Later
- b) Earlier
- c) Either (A) or (B)
- d) None of the above

MTP Nov 22, MTP Jun 2

9 Decrease in input demand \_\_\_\_\_

- a) Doesn't affect inputs prices
- b) Pushes inputs prices up
- c) Pulls inputs prices down
- d) Either (B) or (C)

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PYQ Jun 22

10 Expansion phase of business cycle depicts characteristics except \_\_\_\_\_.

- a) Consumer spending on goods and services tend to rise
- b) Business confidence tends to rise
- c) Interest rates and profits tend to rise
- d) Unemployment tends to rise

PYQ Jun 22

11 A typical feature of depression is \_\_\_\_\_ in the interest rate.

- a) Rise
- b) Constant
- c) Fall
- d) Infinity

PYQ Jun 22

12 Actual demand stagnates in which of the following stage of a business cycle?

- a) Expansion
- b) Peak
- c) Contraction
- d) Recovery

PYQ Jun 22

13 In which stage of the business cycle involuntary unemployment is almost zero?

- a) Expansion
- b) Peak
- c) Contraction
- d) Recovery

A.Q.

14 \_\_\_\_\_ sector is more prone to the adverse effects of the business cycle

- a) Agriculture
- b) Service
- c) Industrial
- d) Can't say

MTP Mar 18

15 Which of the following statements is false with respect to Business Cycles:

- a) They occur periodically.
- b) They generally originate in free market economies.
- c) They are international in character.
- d) They do not affect capitalist economies.

MTP Jun 22

16 Repercussions of business cycles get \_\_\_\_\_ felt on nearly all economic variables.

- a) alternatively
- b) simultaneously
- c) one by one
- d) All of the above

PYQ Jun 23

17 Which is a feature of business cycles

- a) Pervasive in nature
- b) Occurs in restrictive market economy
- c) Periodical regularity
- d) It has same reasons always

PYQ Jun 22

18 Which of the following statement is correct ?

- a) No economy follows a perfectly timed cycle
- b) Economy follows a perfectly timed cycle
- c) Most of the economy follows a perfectly timed cycle
- d) Capitalist economy follow a perfectly timed cycle





**MTP May 20**

**19** Economists use changes in variety of activities to measure business cycle & to predict where economy is headed towards is called-

a) Leading indicators  
b) Indicators  
c) Lagging Indicators  
d) None of these

**PYQ Jun 23**

**20** Which of the following is not an example of lagging indicator

a) Consumer price index  
b) Labour cost price per unit  
c) Commercial lending  
d) Personal income

**MTP Mar 19, SEQ**

**21** Which of the following is not a variable in the index of leading indicators?

a) New consumer goods orders  
b) Delayed deliveries  
c) New building permits  
d) Prime rate

**A.Q.**

**22** Match List I with List II and choose the correct answer using the codes given below.

LIST I	
a.	Leading indicator
b.	Lagging indicator
c.	Coincident indicator
LIST 2	
I.	Industrial production
II.	Changes in stock price
III.	Corporate profit

Codes:	a	b	c
(A)	I	II	III
(B)	II	III	I
(C)	III	II	I
(D)	I	III	II

**23** The government and industry try to predict the business cycle by using indicators. These are:

a) variable that can explain the growth of production capacity.  
b) Variables that precede the actual movements in expenditure on production.  
c) The expenditure categories consumption, investment and exports.  
d) Domestic and foreign indicators relating to the business cycle and the tendency

**PYQ Jun**

**24** Which of the following is not an internal cause of business cycles

a) Fluctuations in effective demand  
b) Fluctuations in investment  
c) Macro-economic policies  
d) Post war reconstruction

**MTP Dec 22, A.**

**25** According to British economist M. Keynes was the main cause of massive decline in income and employment during Great Depression of 1930.

a) Lower aggregate expenditure in the economy.  
b) Banking crises and low money supply.  
c) Overdebtiness.  
d) Lower profits & pessimism

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A.Q.	
26	Trade/Business cycles occur due to
	LIST I
	i. Changes in money supply
	ii. Innovations take place in the system
	iii. Waves of optimism or pessimism
	iv. Fluctuations in aggregate effective demand
	LIST 2
	a Schumpeter
	b Keynes
	c Hawtrey
d AC Pigou	

a) i-d, ii-c, iii-b, iv-a  
 b) i-a, ii-b, iii-c, iv-d  
 c) i-d, ii-a, iii-c, iv-b  
 d) i-c, ii-a, iii-d, iv-b

MTP Dec 22, A.Q.	
27	Post war reconstruction

a) will push the economy to slow down because of excess external debts.  
 b) will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.  
 c) can cause boom or recession depending upon the policies for reconstruction adopted by govt.  
 d) None of these

MTP Nov 22, A.Q.	
28	In order to influence spending on the goods and services in the short run, monetary policy is directed at directly influencing

a) Unemployment rate  
 b) Inflation rate  
 c) Interest rate  
 d) Economic growth rate

A.Q.	
29	Suppose in an economy the population growth rate remained 6% during last 5 years while the economic growth rate during the same period was just 3%. What will be the consequences of it? Select the right option from the options given below.

a) Lesser savings → Lower investment → Low income & employment → Low effective demand → Overall slowdown in economic activities  
 b) More consumption expenditure → more demand → more production → more employment & income → Overall boom in economic activities  
 c) Increase in labour supply → Lower wage rate → Low income → Low savings & investments → Low production → Overall slowdown in economic activities  
 d) None of the above

MTP Oct 18	
30	Which of the following is not an example of business cycle?

a) During 1920s, UK saw rapid growth in gross domestic Product, production levels and living standards.  
 b) Due to bursting of Information Technology bubble stock markets crashed and countries began feeling of down turn in their economies.  
 c) The Sub-prime crisis led to chain effect and it had worldwide impact.  
 d) The cycle business has seen a slowdown in growth over a period of time!

MTP May 20	
31	If demand for goods and services is more than their supply, the resultant inflation is :

a) Cost push inflation.  
 b) stagflation  
 c) deflation.  
 d) demand pull inflation.

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MTP Mar 22

32 Businesses whose fortunes are closely linked to the rate of economic growth is referred to as :

- a) Cyclical
- b) Counter Cyclical
- c) Fiscal Policy
- d) None of these

PYQ Jun 22

33 \_\_\_\_\_ sector cannot be included as 'cyclical' businesses.

- a) electric goods
- b) House builders
- c) Agriculture
- d) Restaurants

A.Q.

34 Recent example of the Business cycle is 'the housing bubble' of the US economy. This bubble got bust in

- a) 1930
- b) 1998
- c) 2000
- d) 2008

MTP Oct 18

35 The phase of business cycle in which growth rate becomes negative and the level of national income and expenditure declines rapidly resulting in widespread unemployment

- a) Contraction
- b) Recession
- c) Depression
- d) Recovery

MTP Apr 23

36 Which is not the External Causes of business cycle:

- a) Technology shock
- b) Population Growth
- c) Money Supply
- d) Natural Factors

MTP May

37 Assertion (A): Investment has a supply effect.  
Reason (R): Because it has capacity to produce.

- a) (A) is true and (R) is false
- b) Both (A) and (R) are true & (R) is correct explanation of (A)
- c) Both (A) and (R) are true & (R) is the correct explanation of (A)
- d) (A) is false and (R) is true

MTP Apr

38 Minimum assured price to farmers to purchase their output by the government is called:

- a) Market Price
- b) Equilibrium Price
- c) Support Price
- d) Ceiling Price





Answer Key – Economics Chapter 5

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

CA Mohanish



# INDEX

## Macro Economics - MCQs

### Business Economics - MCQ Shastra

Chp No.	Chapter Name	Unit	Approx Marks	ICAI SM MCQs
6	Determina- -tion Of National Income	Unit 1 National Income Accounting	15 Marks	6.1 - 6.3
		Unit 2 The Keynesian Theory Of Determination Of National Income		6.4 - 6.5
7	Public Finance	Unit 1 Fiscal Functions: An Overview, Centre And State Finance	10 Marks	7.1 - 7.4
		Unit 2 Market Failure/ Government Intervention To Correct Market Failure		7.5 - 7.8
		Unit 3 The Process Of Budget Making: Sources Of Revenue, Expenditure Management And Management Of Public Debt		7.9 - 7.12
		Unit 4 Fiscal Policy		7.13 - 7.16
8	Money Market	Unit 1 The Concept Of Money Demand: Important Theories	10 Marks	8.1 - 8.3
		Unit 2 Concept Of Money Supply		8.4 - 8.6
		Unit 3 International Trade		8.7 - 8.9
9	Internatio nal Trade	Unit 1 Theories Of International Trade	10 Marks	9.1 - 9.2
		Unit 2 The Instruments Of Trade Policy		9.3 - 9.4
		Unit 3 Trade Negotiations		9.5 - 9.6
		Unit 4 Exchange Rate And Its Economic Effects		9.7 - 9.9
		Unit 5 International Capital Movements		9.10 - 9.11
5	Indian Economy	-	10 Marks	10.1 - 10.3
<b>Total</b>			<b>50-55 Marks</b>	



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Business Economics

**Chapter 6**  
**DETERMINATION OF**  
**NATIONAL INCOME**

**Unit 1 - NATIONAL INCOME**  
**ACCOUNTING**

MCQ Shastra – Volume I  
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## UNIT 1

## Basic

ICAI SM

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

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

ICAI SM

Read the following statements and answer the following question.

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

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

ICAI SM

3 Gross Domestic Product (GDP) of any nation

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

ICAI SM

Read the following statements

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

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

ICAI SM

5 Non-economic activities are

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



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

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

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

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

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

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

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

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

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ICAI SM	
14	Mixed income of the self-employed means
	<ul style="list-style-type: none"> <li>a) net profits received by self-employed people</li> <li>b) outside wages received by self-employed people</li> <li>c) combined factor payments which are not distinguishable,</li> <li>d) wages due to non-economic activities</li> </ul>

ICAI SM	
15	Which of the following is added to national income while calculating personal income?
	<ul style="list-style-type: none"> <li>a) Transfer payments to individuals</li> <li>b) Undistributed profits of corporate</li> <li>c) Transfer payments made to foreigners</li> <li>d) Mixed income of self employed</li> </ul>

Answer Key – Chapter 6 (Unit – 1)

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



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**Chapter 6**  
**DETERMINATION OF**  
**NATIONAL INCOME**

**Unit 2 - THE KEYNESIAN**  
**THEORY OF DETERMINATION**  
**OF NATIONAL INCOME**

MCQ Shastra - Volume I  
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## UNIT 2

## Basic

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

3 According to Keynes, consumption expenditure is determined by

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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



ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

Answer Key - Chapter 6 (Unit - 2)

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



CA Foundation – June 2024  
Business Economics

## **Chapter 7**

### **PUBLIC FINANCE**

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

MCQ Shastra – Volume I  
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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

Read the following statements:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Answer Key – Chapter 7 (Unit – 1)

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

Vora (M)



CA Foundation – June 2024  
Business Economics

## **Chapter 7**

### **PUBLIC FINANCE**

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

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



UNIT 2

Basic

ICAI SM

1 'Market failure' is a situation which occurs when

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

4 Markets do not exist

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

7 The free rider problem arises because of

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

ICAI SM

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

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

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

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

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

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

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

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

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

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

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ICAI SM	
<b>17</b>	<b>Rules regarding product labelling</b>
<ul style="list-style-type: none"> <li>a) Seeks to correct market failure due to externalities</li> <li>b) Is a method of solving the problem of public good</li> <li>c) May help solve market failure due to information failure</li> <li>d) Reduce the problem of monopolies in the product market</li> </ul>	

ICAI SM	
<b>18</b>	<b>Identify the incorrect statement</b>
<ul style="list-style-type: none"> <li>a) A minimum support price for agricultural goods is a market intervention method to guarantee steady and assured incomes to farmers.</li> <li>b) An externality is internalised if the ones that generated the externality incorporate them into their private cost-benefit analysis</li> <li>c) The production and consumption of demerit goods are likely to be less than optimal under free markets</li> <li>d) Compared to pollution taxes, the cap and trade method is administratively cheap and simple to implement and ensures that pollution is minimised in the most cost-effective way.</li> </ul>	

ICAI SM	
<b>19</b>	<b>The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual</b>
<ul style="list-style-type: none"> <li>a) Is a case of negative externality</li> <li>b) Is a case of market efficiency</li> <li>c) Is a case of free riding</li> <li>d) Is inappropriate and warrant action</li> </ul>	

ICAI SM	
<b>20</b>	<b>A government subsidy</b>
<ul style="list-style-type: none"> <li>a) is a market-based policy</li> <li>b) involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities</li> <li>c) is generally provided for merit goods</li> <li>d) all the above</li> </ul>	

ICAI SM	
<b>21</b>	<b>The production and consumption of demerit goods are</b>
<ul style="list-style-type: none"> <li>a) likely to be more than optimal under free markets.</li> <li>b) likely to be less than optimal under free markets</li> <li>c) likely to be subjected to price intervention by government</li> <li>d) a) and c) above</li> </ul>	

ICAI SM	
<b>22</b>	<b>The argument for education subsidy is based on</b>
<ul style="list-style-type: none"> <li>a) Education is costly</li> <li>b) the ground that education is merit good</li> <li>c) education creates positive externalities</li> <li>d) b) and c) above</li> </ul>	

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ICAI SM

Read the following statements

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

23

Of the above

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

ICAI SM

24 Government failure occurs when

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

Answer Key – Chapter 7 (Unit – 2)

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

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Business Economics

## **Chapter 7**

### **PUBLIC FINANCE**

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

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



UNIT 3

Basic

ICAI SM

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

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

The following hypothetical figures relate to country A

Rs. Crores

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

ICAI SM

2 The revenue deficit for country A is

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

ICAI SM

3 Fiscal deficit of country A is

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

ICAI SM

4 Primary deficit of Country A is

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

ICAI SM

5 In NITI Aayog, NITI stands for

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

ICAI SM

6 The Appropriation Bill is intended to

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

ICAI SM

7 Public debt management aims at

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

ICAI SM

8 The railway budget is

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

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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	<b>The non-debt capital receipts of this country is</b>
a) 45.1 b) 16.7 c) 15.8 d) None of the above	

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

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

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

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

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

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

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

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

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ICAI SM	
23	Grants given by the central government to state governments is
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 (Unit – 3)

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



CA Foundation – June 2024  
Business Economics

## **Chapter 7**

### **PUBLIC FINANCE**

#### **Unit 4 - FISCAL POLICY**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR





UNIT 4

Basic

ICAI SM

1 Fiscal policy refers to the

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

6 Keynesian economists believe that

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

ICAI SM

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

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





UNIT 4

Basic

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## UNIT 4

## Basic

ICAI SM

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Keynesian economists believe that

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



## Basic

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- b) Decreasing taxes to ensure high disposable income
- c) Increasing government expenditure and increasing taxes
- d) None of the above

ICAI SM

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- c) Increase government purchases.
- d) None of the above is correct

ICAI SM

6

Keynesian economists believe that

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

ICAI SM

7

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

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



ICAI SM

8 A recession is characterized by

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

ICAI SM

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

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

ICAI SM

10 Which of the following would illustrate a recognition lag?

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

ICAI SM

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

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

ICAI SM

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

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

12

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

ICAI SM

13

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

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





ICAI SM

14 Identify the incorrect statement

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

ICAI SM

Read the following statements

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

Of the above statements

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

ICAI SM

16 While resorting to expansionary fiscal policy

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

ICAI SM

17 Contractionary fiscal policy

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

ICAI SM

18 When government spending is deliberately reduced to bring in stability

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



ICAI SM

19 An increase in personal income taxes

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

Answer Key – Chapter 7 (Unit – 4)

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



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Business Economics

## **Chapter 8**

### **MONEY MARKET**

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

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



UNIT 1

Basic

ICAI SM

1 Choose the incorrect statement

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

ICAI SM

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

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

ICAI SM

3 Demand for money is

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

ICAI SM

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

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

ICAI SM

5 The quantity theory of money holds that

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

ICAI SM

6 The Cambridge approach to quantity theory is also known as

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

ICAI SM

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

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

ICAI SM

8 Real money is

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





ICAI SM

9 The precautionary money balances people want to hold

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

ICAI SM

10 Speculative demand for money

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

ICAI SM

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

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

12

The inventory-theoretic approach to the transactions demand for money

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

15 The nominal demand for money rises if

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



Answer Key – Chapter 8 (Unit – 1)

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



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## **Chapter 8**

### **MONEY MARKET**

### **Unit 2 - CONCEPT OF MONEY SUPPLY**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



## UNIT 2

## Basic

ICAI SM

1 Reserve money is also known as

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

ICAI SM

2 Choose the correct statement from the following

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

ICAI SM

3 Reserve Money is composed of

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

ICAI SM

4 M1 is the sum of

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

ICAI SM

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

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

ICAI SM

6 The primary source of money supply in all countries is

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

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ICAI SM

7

The supply of money in an economy depends on

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

ICAI SM

8

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

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

ICAI SM

9

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

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

ICAI SM

10

Under the fractional reserve system

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

ICAI SM

11

The money multiplier and the money supply are

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

ICAI SM

12

The currency ratio represents

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

ICAI SM

13

The size of the money multiplier is determined by

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





ICAI SM

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

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

ICAI SM

15 The money multiplier will be large

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

19 If commercial banks reduce their holdings of excess reserves

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

Answer Key – Chapter 8 (Unit – 2)

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

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**Chapter 8**  
**MONEY MARKET**

**Unit 3 - MONETARY POLICY**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



## UNIT 3

## Basic

ICAI SM

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

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

ICAI SM

2 The main objective of monetary policy in India is \_\_\_\_\_:

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

ICAI SM

3 The monetary transmission mechanism refers to

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

ICAI SM

4 A contractionary monetary policy-induced increase in interest rates

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

ICAI SM

5 During deflation

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

ICAI SM

6 Which of the following statements is correct?

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

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

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

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

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

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

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







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## **Chapter 9**

### **INTERNATIONAL TRADE**

#### **Unit 1 - THEORIES OF INTERNATIONAL TRADE**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



UNIT 1

Basic

ICAI SM

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

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

ICAI SM

2. The theory of absolute advantage states that

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

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

Labour cost (hours) for production of one unit

	Country A	Country B
Cloth	40	80
Grain	80	40

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

ICAI SM

6. According to the theory of comparative advantage

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



ICAI SM

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

Labour cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

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

ICAI SM

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

Labour cost (hours) for production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

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

9

ICAI SM  
Comparative advantage refers to

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

ICAI SM

10

Ricardo explained the law of comparative advantage on the basis of

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

Answer Key – Chapter 9 (Unit – 1)

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



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## Chapter 9 INTERNATIONAL TRADE

### Unit 2 - THE INSTRUMENTS OF TRADE POLICY

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR





## UNIT 2

## Basic

ICAI SM

## 1 A specific tariff is

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

## 4 Escalated tariff refers to

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

ICAI SM

## 5 Voluntary export restraints involve:

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

ICAI SM

## 6 Anti-dumping duties are

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



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

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

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

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

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

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

**Answer Key –Chapter 9 (Unit – 1)**

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

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**Chapter 9**  
**INTERNATIONAL TRADE**

**Unit 3 - TRADE NEGOTIATIONS**

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR



UNIT 3

Basic

ICAI SM

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

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

ICAI SM

2 Choose the correct statement

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

ICAI SM

3 The 'National treatment' principle stands for

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

ICAI SM

4 'Bound tariff' refers to

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

ICAI SM

5 The essence of 'MFN principle' is

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

ICAI SM

6 The World Trade Organization (WTO)

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

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ICAI SM

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

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

ICAI SM

8 The Agreement on Textiles and Clothing

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

ICAI SM

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

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

ICAI SM

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

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

ICAI SM

11 The WTO commitments

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

Answer Key – Chapter 9 (Unit – 3)

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

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## **Chapter 9**

### **INTERNATIONAL TRADE**

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

MCQ Shastra – Volume I  
(Micro Economics)  
by MVSIR





UNIT 4

Basic

ICAI SM

1

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

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

ICAI SM

2

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

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

ICAI SM

3

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

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

ICAI SM

4

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

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

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

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

ICAI SM

5

Choose the correct statement

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



ICAI SM

6 Which of the following statements is true?

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

ICAI SM

7 An increase in the supply of foreign exchange

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

ICAI SM

8 Currency devaluation

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

ICAI SM

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

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

ICAI SM

10 'Vehicle Currency' refers to

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





Answer Key – Chapter 9 (Unit – 4)

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

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## **Chapter 9**

### **INTERNATIONAL TRADE**

#### **Unit 5 - INTERNATIONAL CAPITAL MOVEMENTS**

MCQ Shastra – Volume I  
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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 (Unit – 5)

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



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**Chapter 10**  
**INDIAN ECONOMY**

MCQ Shastra – Volume I  
(Micro Economics)  
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**Basic**

ICAI SM

1 The Indian industry stagnated under the colonial rule because

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

ICAI SM

2 The first wave of liberalization starts in India

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

ICAI SM

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

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

ICAI SM

4 Merchandise Exports from India Scheme was replaced by -

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

ICAI SM

5 The Foreign Investment Promotion Board (FIPB)

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

ICAI SM

6 FAME-India Scheme aims to

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

ICAI SM

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

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

ICAI SM

8 E-NAM is -

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



ICAI SM

9

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

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

ICAI SM

10

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

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

ICAI SM

11

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

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

ICAI SM

12

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

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

ICAI SM

13

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

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

ICAI SM

14

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

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





ICAI SM	
15	The strategy of agricultural development in India before green revolution was -
	<ul style="list-style-type: none"> <li>a) High yielding varieties of seeds and chemical fertilizers to boost productivity</li> <li>b) Institutional reforms such as land reforms</li> <li>c) Technological up gradation of agriculture</li> <li>d) All the above</li> </ul>

ICAI SM	
16	The Industrial Policy Resolution (1948) aimed at -
	<ul style="list-style-type: none"> <li>a) Market oriented economic reforms and opening up of economy</li> <li>b) A shift from state led industrialization to private sector led industrialisation</li> <li>c) an expanded role for the public sector and licensing to the private sector</li> <li>d) an expanded role of private sector a limited role of public sector</li> </ul>

ICAI SM	
17	The new economic policy of 1991 manifest in -
	<ul style="list-style-type: none"> <li>a) State led industrialization and import substitution</li> <li>b) Rethinking the role of markets versus the state</li> <li>c) Emphasized the role of good governance</li> <li>d) Bringing about reduction in poverty and redistributive justice</li> </ul>

ICAI SM	
18	The post independence economic policy was rooted in -
	<ul style="list-style-type: none"> <li>a) A capitalist mode of production with heavy industrialization</li> <li>b) social and economic redistribution and industrialization directed by the state</li> <li>c) social and economic redistribution through private sector initiatives</li> <li>d) Industrialization led by private entrepreneurs and redistribution by state</li> </ul>

Answer Key

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