PREFACE

First of all I would like to thank my parents, my guide, my teachers, colleagues, my beloved students and almighty for continuously inspiring me and showing me the right path.

Lots of efforts and research was involved in curating this book. I feel delighted to introduce the new and revised version of ***Business Economics****, 1st edition. The book is drafted keeping ICAI New syllabus guidelines and previous exam questions. The book is made with utmost detail keeping in mind the level of exams; however some errors may creep-in unintentionally. Learning is a continuous process and thus I feel glad to update the errors, if any.*

ABOUT THE BOOKS

The books are divided into Two Volumes of Ten chapters each. Volume 1 is concept book covering all relevant concepts of ICAI. Volume 2 is MCQ book covering all the past year questions, ICAI Study Material Questions and MTPs. First 4 Chapters covers Micro Economics and Next 6 Chapters Covers Macro Economics. Material is drafted for giving full conceptual clarity keeping in mind exam requirements.

Efforts were made to include 100% syllabus in the book however some part which was considered irrelevant from knowledge as well as exam point of view was eliminated.

22nd January, 2024

Pune *CA. Aditya Sharma*

INDEX

MICRO & MACRO ECONOMICS -MCQ

Chapter – 1 Nature _ Scope of Business Economics

Basics of Business Economics

Q 1. The word 'Economics' originates from the word ………………
(a) Oikomnomikos (b) Oikonomia
(c) Eikonomikos (d) Ekconomics

Q 2. The word 'Economics' originates from the ……….. world 'Oikonomia'
(a) Roman (b) French
(c) Greek (d) European

Q 3. Till 19th century Economics was known as
(a) Political Economy (b) Social Economy
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 4. The meaning of Greek word 'oikonomia' is …….
(a) Wealth Management (b) House Management
(c) Business Economics (d) Business Management

Q 5. Human wants are…… and means to satisfy these wants are……
(a) Limited, scarce (b) Unlimited, unlimited
(c) Unlimited, scarce (d) Limited, Unlimited

Q 6. The meaning of the word 'Economic' is closely connected with the word-
(a) Scarce (b) Unlimited
(c) Restricted (d) Both (a) and (b)

Q 7. In Business economics 'ends' refers to-
(a) Human wants (b) Resources
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 8. In Business economics 'Means' refers to-
(a) Human wants (b) Resources
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 9. Which of the following is an economic activity?
(a) Boy helping his friend to solve puzzle.
(b) Teams playing friendly football match
(c) A teacher teaching to class
(d) Watching Television

Q 10. Which of the following is not an economic activity?
(a) Housewife doing household duties
(b) Manufacturing of garments at subsidized rate.
(c) Medical facility rendered by charitable trust
(d) A CA doing his own practice.

Q 11. Which of the following is an economic activity?
(a) Housewife doing household duties
(b) Listening to music on radio
(c) Medical facility rendered by charitable trust
(d) Teaching one's own son at home

Q 12. The law of Scarcity-
(a) Does not apply to developed and rich countries
(b) Applies only to less developed countries
(c) Implies that the consumers' want will be satisfied in a socialist economy
(d) Implies that consumers' want will never be completely satisfied.

Q 13. What does the scarcity of resource implies…
(a) We must develop way to decrease our individual wants
(b) Not all wants can be satisfied
(c) Resources can not satisfy any want
(d) Resources are very scarce and shall not be used at all

Q 14. Rational decision making requires-
(a) One's choice never vary
(b) One's choice be consistent with one's goal
(c) One makes choices that do not involve trade-offs
(d) One must be graduate to make decision

Q 15. …….. DefinedBusiness Economics in terms of the use of economic analysis in the formulation of business policies?
(a) J.B Say
(b) Alfred Marshall
(c) Walker
(d) Joel Dean

Q 16. Business Economics is also known as…………
(a) Managerial Economics
(b) Social Economics
(c) Environmental Economics

(d) Money Market Economics

Q 17. Which of the following statement is not correct?

(a) Business Economics refers to the integration of economic theory with business practice

(b) Business Economics is not only valuable to business decision makers, but also useful for managers of 'not-for-profit' organisations

(c) theories of Economics provide the tools which explain various concepts such as demand, supply, costs, price, competition etc

(d)Business Economics is concerned only with Micro Economics

Q 18. Economic theories are.......

(a) Simplistic (b) Hypothetical

(c) Old (d) Both (a) and (b)

Q 19. Consider the following and decide, which economy (if any) is without scarcity

(a) American economy

(b) Indian economy between 1947-2000

(c) Pre independent Indian economy

(d) None of the above

Q 20. ....refers to the process of selecting an appropriate alternative that will provide the most efficient means of attaining a desired end, from two or more alternative courses of action?

(a) Problem solving

(b) Problem analyzing

(c) Managerial expertise

(d) Decision making

Q 21. Which of the following involves Business decision making?

(a) Continue or shut down decision

(b) Launching of new product

(c) Proper debt and equity mix

(d) All of the above

Q 22. Which of the following does not involve Business decision making?

(a) Lease or purchase of an asset

(b) Deciding which movie to watch on weekend

(c) In-house production or outsource

(d) Which production method should be used for manufacturing of goods?

Q 23. Pragmatic approach means -

(a) Realistic (b) Practical.

(c) Both (a) and (b) (c) Neither (a) nor (b)

Q 24. Positive Science explains-

(a) "What is" (b) "What was"

(c) "What ought to be" (d) "What will"

Q 25. Normative Science explains-

(a) "What is" (b) "What ought to be".

(c) "What will" (d) Both (a) and (b)

Q 26. Positive science is-

(a) Descriptive (b) Prescriptive

(c) Explanatory (d) Imaginary

Q 27. Normative science is-

(a) Descriptive (b) Prescriptive

(c) Explanatory (d) Imaginary

Q 28. The study of economic behavior of an individual firm or industry in national economy is called as ......

(a) Micro Economics (b) Macro Economics

(c) Business Economics (d) Behavioral Economics

Q 29. Macro Economics deals with

(a) External value of money

(b) Employment and economic growth

(c) General price level

(d) All of above

Q 30. We mainly study the following in Micro-Economics: ....

(a) General price level

(b) National income and output

(c) Location of industry

(d) Employment and economic growth

Q 31. We mainly study the following in Macro-Economics: ....

(a) External value of money

(b) Product pricing

(c) National income and output

(d) (a) and (c)

Q 32. Micro and macro are not two independent approaches to economic analysis but they are complementary to each other.
(a) False (b) True
(c) Partly true (d) Partly false

Q 33. Inventory does not includes
(a) Raw Material (b) Work in progress
(c) Finished goods (d) None of the above

Q 34. The study of behavior of consumers in the market and the effect of changes in the determinants of demand is called as
(a) Demand analysis (b) Demand forecasting
(c) Cost analysis (d) Market analysis

Q 35. .... is the technique of predicting future demand of goods and services on the basis of past behavior of factor.
(a) Demand analysis (b) Demand Forecasting
(c) Market analysis (d) Price analysis

Q 36. ....explains the relationship between input and output
(a) Cost theory (b) Supply theory
(c) Demand theory (d) Production theory

Q 37. Degree of market power is determined by-
(a) Demand analysis
(b) Cost analysis
(c) Market structure analysis
(d) All of the above

Q 38. ....also called as 'Price Theory' as it explains the composition of total production.
(a) Micro economics (b) Macro Economics
(c) Demand theory (d) Supply theory

Q 39. ....also called as 'Income Theory' as it explains level of total production, total consumption, total savings and total investment and the rice or fall in these levels.
(a) Micro economics (b) Macro economics
(c) Demand Theory (d) Supply theory

Q 40. ....analyses cause and effect relationship but does not pass any value judgment.
(a) Positive or pure science
(b) Normative science
(c) None of the above
(d) All of above

Q 41. ....evaluates and pass value judgment
(a) Positive science (b) Pure science
(c) Social Science (d) Normative Science

Q 42. Business economics is not affected by external factors
(a) True (b) False
(c) Partially true (d) Cannot be commented

Q 43. State which of the following statement is not true
(a) Business economics is inter-disciplinary
(b) There are three types of economy- Socialist Economy, Capitalist Economy and Mixed Economy
(c) Business Economics used the theory of Market and Private Enterprises
(d) The term Micro-Economics is Derived from Greek work 'Makros'

Q 44. ......enables the firm to recognise the behaviour of costs when variables such as output, time period and size of plant changes.
(a) Cost analysis (b) Accounting cost
(c) Production analysis (d) Demand analysis

Q 45. Economics is a ....
(a) Science (b) Art
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 46. What is the "fundamental premise of the economics?"
(a) Natural Resources will always be scarce
(b) Individuals are capable of establishing goals and acting in manner consistent with achievement of those goals
(c) Individuals chose alternative for which they believe the net gain to be the greatest.
(d) No matter what the circumstance, individual choice always involves a trade- off

Q 47. Wants can be satisfied by consumpotion of........../ are economic wants
(a) Goods (b) Services

(c) Goods and services (d) None of the above

Q 48. In Mixed economy, private sector-

(a) Are absolutely free to make any type of decisions

(b) Works only for social objectives

(c) Are regulated directly and / or indirectly by government

(d) Does not exists at all

Q 49. .... systematized the concept in the form the book which was entitled as, ''An Enquiry intothe Nature and Cause of the Wealth of Nations''

(a) George Bernard Shaw

(b) Adam Smith.

(c) Alfred Marshall

(d) A. C. Pigou

Q 50. Adam smith published his masterpiece "An enquiry into the nature and causes of wealth of nation" in the year ....

(a) 1776 (b) 1786

(c) 1756 (d) 1766

B. Central Economic Problem

Q 51. The Central Economic problem is that of-

(a) Allocating the scarce recourse in such a manner that society's unlimited wants are satisfied as far as possible

(b) Giving jobs to poor and backward.

(c) Guaranteeing that the production occurs in most efficient manner

(d) All of above

Q 52. Which of the following is the cause of central economic problem?

(a) Scarcity of recourses

(b) Unlimited wants

(c) Alternative use

(d) All of the above

Q 53. State which of the following statement is not true

(a) If the recourses were unlimited, people would be able to satisfy their wants.

(b) If recourse has only single use, then also economic problem would not arise.

(c) All countries, without exception, face problem of scarcity.

(d) Developed countries do not face Central Economic Problems

Q 54. Which of the following is not a central economic problem?

(a) What to produce? (b) When to produce?

(c) How to produce? (d) For whom to produce?

Q 55. Central Problems arises in case of-

(a) Capitalist Economy (b) Socialist Economy

(c) Mixed Economy (d) All of the above

Q 56. If there is adequate recourse in an economy, then there is no economy problem at all. This statement is-

(a) False

(b) True

(c) Partially True

(d) Cannot be commented at all

Q 57. The Problem of 'What to Produce' covers the issue relating to-

(a) What goods are to be produced?

(b) What quantities of goods are to be produced?

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 58. The economy which uses all its recourses on production of ...... goods only, con not provide for future growth prospect.

(a) Consumer goods only (b) Capital goods only

(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 59. Productive efficiency means -

(a) Recourses are employed in their most valued uses

(b) Total number of goods produced is more

(c) Goods and services are produced at least cost without wastage

(d) Best recourse are employed

Q 60. In deciding ' how to produce' the economy should decide on-

(a) Types to goods to be produced

(b) Consumer goods or capital goods

(c) Method of production

(d) Quantity of goods to be produced

Q 61. While solving the question of ' how to produce' the economy should consider-

(a) Labour intensive technique
(b) Capital intensive technique
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 62. While solving the question of ' how to produce' the choice of appropriate method of production depends upon-

(a) Availability of factor of production
(b) Price of different factor of production
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 63. Which of the following statement is not true-

(a) There are various alternative techniques of producing a commodity.
(b) A society cannot satisfy each and every want of society.
(c) If society uses all the resources for current consumption and no provision is made for future production, the society's production capacity would not increase..
(d) None of above

Q 64. Capital intensive technique would get chosen in

(a) Capital surplus economy
(b) Labour surplus economy
(c) Developed economy
(d) Developing economy

Q 65. Labour intensive technique would get chosen in

(a) Capital surplus economy
(b) Labour surplus economy
(c) Developed economy
(d) Developing economy

Q 66. Distribution and sharing of national product relates to the problem of

(a) How to provide for economic growth
(b) What to produce
(c) How to produce
(d) For whom to produce

Q 67. The problem of ' for whom to produce' deals with

(a) Share of different people in total output of goods and services
(b) How to distribute and share the national product.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 68. An economy can spend on all its recourses on current consumption without making provision for economic growth

(a) True (b) False
(c) Partially true (d) Cannot be commented at all

Q 69. In the context of capitalist economy, which of the following statement if false- {Omit this question}

(a) Private property is the mainstay of capitalism
(b) Profit is the driving force in capitalist economy
(c) Decision of customers and businesses determines economic activity.
(d) None of above

Q 70. Laissez-faire economy is another term used for

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

Q 71. Which of the following is not the feature of capitalist economy:

(a) Right to private property.
(b) Freedom of economic choice.
(c) Collective ownership
(d) Consumer Sovereignty

Q 72. Consumer Sovereignty means-

(a) that buyers ultimately determine which goods and services will be produced and in what quantities.
(b) consumer will pay only how much he can.
(c) consumer will help the producer in manufacture of goods or rendering of services
(d) consumer have unlimited purchasing power.

Q 73. .... determines which goods and services will be produced and in what quantity

(a) Buyer (b) Seller
(c) Government (d) All of the above

Q 74. Capitalist economy uses......... to solve economic problem

(a) impersonal forces of market demand and supply.

(b) price mechanism.
(c) external reports
(d) economic theories.

Q 75. An entrepreneur will produce goods and services choosing that technique of production which renders his cost of production……
(a) Minimum.
(b) Maximum.
(c) Exactly similar to other competitors.
(d) Higher compared to other competitor

Q 76. Which of the following statement is true in context with economic problem of ' for whom to produce'
(a) Higher the income, higher will be the buying capacity and higher will be his demand for goods in general.
(b) Higher the income, lower will be the buying capacity and higher will be his demand for goods in general
(c) Goods will be produced for those who do not have buying capacity
(d) income one will be able to make depends only on the amount of work he does

Q 77. For analysing ownership and utilisation of recourses, economies are classified into-
(a) Mixed economy (b) Capitalist economy
(c) Socialist economy (d) All of the above

Q 78. Capitalist economy is characterised by-
(a) Profit motive
(b) Competition among buyers and sellers
(c) Inequality of income.
(d) All of the above

Q 79. An economic system in which all means of production are owned and controlled by private individuals for profit is called as…………… economy
(a) Capital (b) Social
(c) Mixed (d) None of the above

Q 80. Which of the following is not a feature of capitalist economy-
(a) Right to private property
(b) Profit motive
(c) Freedom of enterprise
(d) Equal distribution of income

Q 81. Free market economy driving force is-
(a) Welfare of the people
(b) Profit motive
(c) Rising income and level of living
(d) None of the above

Q 82. Under………..economy, government has no control over price fluctuations
(a) Mixed economy (b) Free Market
(c) Socialist economy (d) None of the above

Q 83. Which type of economy gives rise to most efficient allocation of recourse and capital in the standard Micro-Economic framework?
(a) Free market economy
(b) Mixed economy
(c) Controlled market economy
(d) None of the above

Q 84. Under capitalist economies, the answer to the fundamental questions-what, how and for whom to produce are obtained by–
(a) Market forces of demand and supply.
(b) Government regulation
(c) Cost benefit analysis
(d) All of the above.

Q 85. In a free market economy the allocation of resources is determined by –
(a) Votes taken by consumers
(b) A central planning authority
(c) Consumer preference
(d) The level of profits of firms

Q 86. The concept of "competition" in a capitalist economy refers to-
(a) Competition among sellers to sell goods.
(b) Competition among buyers to obtain the goods to satisfy their wants
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 87. Discounts, price cutting, Advertisements, etc in capitalist economy are-
(a) Types of government regulation
(b) Effects of consumer sovereignty.
(c) Method of handling competition.

(d) None of the above.

Q 88. Inequalities of income refers to?
(a) All workers do not get equal wages
(b) Gap between rich and poor
(c) All companies do not earn same profit
(d) All of the above

Q 89. Socialist economy is also known as-
(a) Free market economy (b) Mixed economy
(c) Traditional economy (d) Command economy

Q 90. Under Socialist economy………… takes decision for allocation of recourses
(a) Central planned authority
(b) Seller
(c) Buyer
(d) Foreign diplomats

Q 91. Which of the following not the feature of socialist economy-
(a) Collective ownership
(b) Profit Motive
(c) Absence of economic choice
(d) Relatively equal income distribution

Q 92. Socialist economy is characterised by-
(a) Selective production of goods
(b) Relative equality of income
(c) Secondary role of price mechanism
(d) All of the above

Q 93. Which of the following applies to socialist economy-
(a) Balance between social objective and economic activity
(b) Private ownership of all recourses and factor of productions
(c) Total absence of government regulation
(d) Market mechanism to solve central economic problem

Q 94. Under command economy, all the decision from allocation of recourse to distribution of end product, is taken care by
(a) Producers
(b) Cartels
(c) Central planning authority
(d) Consumer forum,

Q 95. National income is more often evenly distributed in-
(a) Mixed economy
(b) Command economy
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 96. In Socialist economy, the concept of consumer sovereignty is-
(a) Restricted (b) Unrestricted
(c) Recognised. (d) None of the above

Q 97. Pure form of socialist economy does not exist in present days
(a) False
(b) True
(c) Partially true
(d) Cannot be commented at all

Q 98. Identify the correct statement-
(a) In capitalist economy, people are not free to spend their income as they like
(b) In socialist economy right to work is guaranteed but the choice of occupation gets restricted.
(c) In Socialist economy, a relative inequality in income is an important feature
(d) In Socialist economy, people are not allowed to choose between available range of choice

Q 99. Which of the following is not a micro economic subject matter?
(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.

Q 100. In Mixed economy there are ….. sectors of industries
(a) One (b) Two
(c) Three (d) Four

Q 101.

In mixed economy, industries are found in……

(a) Joint Sector (b) Private sector

(c) Public sector (d) All of the above

Q 102. In Mixed economy, industries in private sectors have…. as their objective and driving force, while public sector have……..as their objective and driving force ?

(a) profit motive, community welfare

(b) community welfare, profit motive

(c) community welfare, own profit

(d) None of the above

Q 103. In India areas like atomic energy, defence, etc are in the hands of….

(a) Public sector (b) Private sector

(c) Joint sector (d) All of the above

Q 104. ……….. is the demerit of capitalist economy

(a) Low cost of production

(b) High regulation of government

(c) No incentive for hard work

(d) Inequality of income

Q 105. Indian economy is an example of………

(a) Mixed economy (b) Socialist economy

(c) Capitalist economy (d) None of the above

Q 106. A Mixed economy focuses on ensuring

(a) Productive efficiency of capitalism

(b) Distributive justice of Socialism

(c) Both (a) and (b)

(d) Neither (a) nor (b)

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

Chapter 1- Nature and Scope of Business Economics

Past Year & Most Frequent MCQ

Q.1. 'Economics is the study of mankind in the ordinary business of life was given by
(a) Adam Smith (b) Lord Robbins
(c) Alfred Marshall (d) Samuelson

Q.2. The branch of economic theory that deals with the problem of allocation of resources is
(a) Micro economics (b) Macroeconomics
(c) Econometrics (d) None of these

Q.3. Capitalistic Economy uses __ as principal means of allocating Resources
(a) demand (b) supply
(c) price (d) all of the above

Q.4. A study of how an increase in the corporate income tax rate will affect the natural unemployment rate is an example of:
(a) Macroeconomics
(b) Descriptive Economics
(c) Microeconomics
(d) Normative Economics

Q.5. In which type of economy do consumers and producers make their choices based on the market forces demand and supply?
(a) Open Economy (b) Controlled Economy
(c) Command Economy (d) Market Economy

Q.6. Under a free economy, prices are:
(a) Regulated
(b) Determined through a free interplay of demand and supply
(c) Partly regulated
(d) None of these

Q.7. Which of the following falls under microeconomics?
(a) National income
(b) General price level
(c) Factor pricing
(d) National saving and investment

Q.8. In a free-market economy, when consumers increase their purchase of a goods and the level of exceeds then prices tend to rise :
(a) demand, supply (b) supply, demand
(c) prices, demand (d) profits, supply

Q.9. According to Robbins, 'means' are:
(a) Scarce (b) Unlimited
(c) Undefined (d) All of these

Q.10. Economics is the study of
(a) How society manages its unlimited resources
(b) How to reduce our wants until we are satisfied
(c) How society manages its scarce resources
(d) How to fully satisfy our unlimited wants

Q.11. A mixed economy means :
(a) Co-existence of small and large industries
(b) Promoting both agriculture and industries in the economy
(c) Co-existence of rich and poor
(d) Co-existence of public and private sectors

Q.12. Who defines Economics in terms of Dynamic Growth and Development?
(a) Robbins (b) Paul A Samuelson
(c) Adam Smith (d) None

Q.13. A Free Market economy, solves its Central Problems through
(a) planning authority
(b) market mechanism
(c) both
(d) none

Q.14. Normative aspect of Economics is given by :
(a) Marshall (b) Robbins
(c) Adam Smith (d) Samuelson

Q.15. Which one is not the characteristic of a capitalistic economy?
(a) Profit motive (b) Income inequality
(c) Free employment (d) Collective ownership

Q.16. Mixed economy means
(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 private entrepreneurs
(d) None of these

Q.17. Economic Problem arises when :
(a) Wants are unlimited
(b) Resources are limited
(c) Alternative uses of resources
(d) All of the above

Q.18. Micro economics is also known as
(a) public economics (b) price theory
(c) income theory (d) demand theory

Q.19. A developed economy uses technique in production
(a) labour intensive (b) capital intensive
(c) home-based (d) traditional

Q.20. Which one is the feature of Marshall's definition?
(a) Limited ends
(b) Scarce means
(c) Study of wealth as well as study of man
(d) Study of allocation of resources

Q.21. Which one in the following is not correct :
(a) There are limited wants
(b) Means are scarce
(c) Resources have alternative uses
(d) Economics is science

Q.22. Micro Economics is concerned with:
(a) Consumer Behaviour (b) Product pricing
(c) Factor Pricing (d) All of the above

Q.23. Who gave the positive aspect of science?
(a) Alfred Marshall (b) A.C. Pigou
(c) Adam Smith (d) Robbins

Q.24. Which of these is a part of microeconomics?
(a) Factor pricing (b) National Income
(c) Balance of payment (d) None

Q.25. Which of these is an example of macroeconomics:
(a) The problem of unemployment in India
(b) The rising price level in the country
(c) Increase in disparities of income
(d) All of the above

Q.26. In a capitalist economy the allocation of resources is performed by:
(a) Producers (b) Government
(c) Planners (d) Price mechanism

Q.27. Which of the following statements is incorrect?
(a) Alfred Marshall propagated the wealth definition of Economics
(b) L. Robbins introduced the 'Scarcity' definition of Economics
(c) Samuelson emphasized upon the "growth" aspect of Economics
(d) A.C Pigou believed in the 'welfare' aspect of Economics

Q.28. Inequalities of income do not perpetuate in
(a) socialism (b) mixed economy
(c) capitalism (d) none

Q.29. Which of the following are the features of a mixed economy?
(a) Planned economy
(b) Dual system of pricing exists
(C) Balanced regional development
(d) All of the above.

Q.30. Normative Economics is based on:
(a) Ethical Considerations
(b) Facts and Generalization
(c) What is?
(d) All of the above

Q.31. The dual system of pricing exists in:
(a) Free market economy
(b) Socialistic economy
(c) Mixed economy
(d) None of the above

Q.32. A Capitalist Economy follows the policy of:
(a) Laissez-faire
(b) Regulated markets

(c) Promoting public sector
(d) None of the above.

Q.33. "Economics is the science of choice-making' implies:-
(a) No choice is to be made
(b) The choice to be made between alternative uses
(c) The choice to be made between means and ends
(d) None of the above

Q.34. Which of the following is a part of the subject matter of macro economics?
(a) Study of firms
(b) Aggregate profits of a firm
(c) Market demand for a product
(d) Net national product.

Q.35. A capitalist economy is by and large
(a) a closed economy
(b) a free market economy
(c) a centrally controlled economy
(d) an economy in which a government neither collects any taxes nor incurs any expenditure

Q.36. A free-market economy's driving force is:
(a) Profit motive
(b) Welfare of the people
(c) Rising income and levels of living
(d) None of the above

Q.37. "Economics is neutral between ends". The statement is given by:
(a) L. Robbins (b) Mrs. Joan
(c) Alfred Marshall (d) A.C. Pigou

Q.38. A system of economy in which all the means of production are owned and controlled by the private individuals for the purpose of profit is called
(a) Socialist Economy (b) Capitalist Economy
(c) Mixed Economy (d) All of the above

Q.39. Where does the price mechanism exist?
(a) Capitalist Economy
(b) Socialist Economy
(c) Both types of economies
(d) None of the above

Q.40. Economics which is concerned with welfare propositions is called
(a) Socialistic economics
(b) Capitalistic economics
(c) Positive economics
(d) Normative economics

Q.41. In which among the following systems the right to property' exists
(a) Mixed economy (b) Capitalist economy
(c) Socialist economy (d) Traditional economy

Q.42. Positive science only explains
(a) What is?
(b) What ought to be?
(c) What is right or wrong
(d) None of the above

Q.43. Socialist Economy is also known as
(a) Mixed Economy (b) Planned Economy
(c) Capitalist Economy (d) None of the above

Q.44. Who has defined economics as "Science which deals with wealth"?
(a) Adam Smith (b) Canon
(c) J.B. Say (d) A.C. Pigou

Q.45. Which of the following is not a feature of a capitalist economy?
(a) Right to private property
(b) Restrictions on consumers right to choose
(c) Profit motive
(d) Freedom of enterprise

Q.46. The most important function of an entrepreneur is to
a) innovate
(b) bear the sense of responsibility
(c) finance
(d) earn profit

Q.47. The meaning of time element in economics is:
(a) Calendar time
(b) Clock time
(c) Operational time in which supply adjusts with the market demand
(d) None of the above

Q.48. All wants of an individual are not of:
(a) Equal importance
(b) Immediate importance
(c) Fixed importance
(d) All of the above

Q.49. Micro economics does not study
(a) Consumer behavior (b) Factor pricing
(c) General price level (d) Firms equilibrium.

Q.50. Find out the correct statement
(a) Higher the prices, lower the quality demanded of a product is a normative statement
(b) Micro and macro-economics are interdependent
(c) In a capitalist economy, the economic problems are solved by planning commission
(d) In deductive method logic proceeds from particular to the general

Q.51. Microeconomics is the study of:
(a) Individual parts of the economy
(b) The economy as a whole
(c) Choice making
(d) Development of the economy

Q.52. The definition of economics given by Robbins does not deal with one of the following aspects. Indicate that aspect.
(a) Scarce means (b) Limited ends
(c) Alternative uses d) Economics is a science

Q.53. Which Economic System is described by Schumpeter as 'capitalism in the oxygen tent?
(a) Laissez-Faire Economy
(b) Command Economy
(c) Mixed Economy
(d) Agrarian Economy

Q.54. The Central problem in every economic society is:
(a) To ensure a minimum level of income for every individual.
(b) To allocate scarce resources in such a manner that society, unlimited wants are satisfied in the best possible manner.
(c) To ensure that production occurs in the most efficient manner.
(d) To provide job to every job seeker.

Q.55. Socialist Economy was propounded by:
(a) Karl Marx & Fredut Angles
(b) Samuelson
(c) A.C. Pigou
(d) Adam Smith

Q.56. Concept of Business Economics was given by:
(a) Joel Dean (b) Alfred Marshall
(c) Adam Smith (d) L. Robbins

Q.57. A business economy involves the theory of Business economics with
(a) Normative Economics (b) Business practices
(c) Micro Economics (d) Macro Economics

Q.58. Which is not included in Economics?
(a) Family Structure
(b) Managerial Economics
(c) Micro Economics
(d) Macro Economics

Q.59. In which economy market and government both play an important role?
(a) Mixed economy (b) Socialistic economy
(c) Capitalistic economy (d) Business economy

Q.60. Which factor is included in business Economics?
(a) Business Economics is an art
(b) Interdisciplinary in nature
(c) Normative in nature
(d) All of the above

Q.61. Which out of these are the features of capitalism?
(i) Profit motive
(ii) Human welfare
(iii) Work through price mechanism
(a) (i) and (ii)
(b) (ii) and (iii)
(c) (i) and (iii)
(d) All of these

Q.62. Socialism ensures
(a) Rapid growth and balanced development
(b) Right to work
(c) Incentives for efficient economic decisions

(d) Both (a) and (b)

Q.63. Macroeconomics includes
(a) Product pricing
(b) Consumer behavior
c) External value of money
(d) Location of industry

Q.64. Exploitation and inequality will be more in
(a) Socialism (b) Capitalism
(c) Mixed (d) All of the above

Q.65. Shyam: This year due to heavy rainfall my anion crop was damaged Krishna : Climates affect crop yields. Some years are bad, others are good

Hari: Don't worry - Price increase will compensate for the fall in quantity supplied

Radhe: The Government ought to guarantee that our income will not fall.
In this conversation, the normative statement is made by
(a) Shyam (b) Krishna
(c) Hari (d) Radhe

Q.66. A capitalist economy consists of
(a) Central planning authority
(b) A mechanism to decide as to what, how and for whom to produce
(c) Both (a) and (b)
(d) None of the above

Q.67. Applied economics includes
(a) Regression analysis and mathematical linear programming
(b) Capital budgeting
(c) Both (a) and (b)
(d) None

Q.68. Economic goods are considered as scarce resources because
(a) Inadequate quantity to satisfy the needs of the society
(b) Not possible to increase the quantity
(c) Limited hands to make goods
(d) Primary importance in satisfying social requirements
(1 mark)

Q.69. Due to recession, employment rate and output
(a) Rises ; rises (b) Falls, falls
(c) Rises falls (d) Falls; rises

Q.70 ______refers to the work area where surplus manpower is employed out of which some individuals have zero or almost zero marginal productivity, such that if they are removed the total level of output remains unchanged.
(a) Voluntary (b) Disguised
(c) Structural (d) Technological

Q.71. Socialist economy is
(a) Self-regulation
(b) Profit Oriented
(c) Command economy
(d) Allocation of resources as per market requirements
(1 mark)

Q.72. In a market economy all assets are held by:
(a) Investors (b) Privately
(c) Government (d) Jointly by government

Q.73. The branch of economic theory that deals with problem of allocating resources
(a) Micro economics (b) Marc economics
(c) Econometrics (d) None

Q.74. Larger production of goods would lead to higher production in future.
(a) consumer goods (b) capital goods
(c) agricultural goods (d) public goods

Q.75. Which of the following is not within the scope of business economics?
(a) Capital budgeting (b) Risk analysis
(c) Business cycle (d) Accounting Standards

Q.76. Which type of scarcity is referred to in economics
(a) Relative scarcity (b) Absolute scarcity
(c) Both (a) and (b) (d) None

Q.77. Cons
umer sovereignty is which of the following characteristics?
(a) Capitalist economy (b) Mixed economy
(c) Socialist economy (d) Democracy

Qn. no	Ans	Qn. no	Ans	Qn. no	Ans	Qn. no	Ans
1	C	21	A	41	B	61	C
2	A	22	D	42	A	62	D
3	C	23	D	43	B	63	C
4	A	24	A	44	A	64	B
5	D	25	D	45	B	65	D
6	B	26	D	46	A	66	B
7	C	27	A	47	C	67	C
8	A	28	A	48	D	68	A
9	A	29	D	49	C	69	B
10	C	30	A	50	B	70	B
11	D	31	C	51	A	71	C
12	B	32	A	52	B	72	B
13	B	33	B	53	C	73	A
14	A	34	D	54	B	74	B
15	D	35	B	55	A	75	D
16	C	36	A	56	A	76	A
17	D	37	A	57	B	77	A
18	B	38	B	58	A		
19	B	39	A	59	A		
20	C	40	A	60	D		

Chapter 2 - Part A - Utility Analysis

Q 1. ………… is the power of a commodity to satisfy a human want

(a) Utility (b) Money

(c) Price (d) None of the above.

Q 2. Utility -

(a) Differs from person to person

(b) Differs from time to time

(c) Differs from product to product

(d) All of the above

Q 3. Utility is applicable -

(a) Only for socially desirable goods

(b) Only for harmful goods like liquor, cigarettes etc

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 4. Utility is a……….. aspect and differs from person to person

(a) Absolute (b) Subjective

(c) Objective (d) Irrelevant

Q 5. State whether the given statement is true or false-' Utility means usefulness

(a) True

(b) False

(c) Partially true

(d) Cannot be commented at all

Q 6. The concept of utility is ethically neutral- this statement is

(a) True

(b) False

(c) Partially true

(d) Cannot be commented at all

Q 7. Utility theories seek to explain how a consumer spends his income on different goods and services so as to ……….

(a) Become wealthy

(b) survive

(c) Match standard of living

(d) Attain maximum satisfaction

Q 8. Which of the following is not a consumption

(a) Burning of crackers in diwali

(b) Eating ice cream

(c) Burning gas when cooking food

(d) Burning of bike in an accident of fire

Q 9. As per the cardinal approach-utility is………aspect.

(a) psychological (b) non quantifiable

(c) quantifiable (d) irrelevant

Q 10. All wants of an individuals are not of:

(a) Immediate importance

(b) Fixed importance

(c) Equal importance

(d) All of the above

Cardinal Approach- Basics

Q 11. State whether the given statement is true or false in context of cardinal approach to utility 'Human satisfaction can be expressed in monetary terms, and price of a commodity in the market indicates the level of consumer satisfaction'

(a) True

(b) False

(c) Partially true

(d) Cannot be commented at all

Q 12. Marginal utility approach to demand was given by

(a) Hicks and Allen (b) J.B say

(c) Alfred Marshall (d) Dean Joel

Q 13. Which of the following statement is not correct

(a) Cardinal approach provides basis for law of demand

(b) Cardinal approach assumes money measurement concept

(c) Cardinal approach to utility explains the relationship between demand, supply and price.

(d) Cardinal approach to utility do not assume consistency of money

Q 14. Utility can be measure and quantified under-

(a) Cardinal Approach (b) Ordinal approach

(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 15. Under marginal utility analysis, utility is assumed to be a-

(a) Cardinal concept (b) Ordinal concept

(c) Infinite concept (d) Modern concept

Q 16. Marshallian utility analysis is known as .... analysis

(a) Ordinal (b) cardinal

(c) Classic (d) Modern

Q 17. According to Marginal utility analysis, utility can be measured in

(a) Ranks (b) Nominal value

(c) Cardinal numbers (d) All of the above

Q 18. Which of the theories are applicable under cardinal approach to utility?

(a) Law of diminishing marginal utility

(b) Law of Equi-Marginal utility

(c) Consumer surplus theory

(d) All of the above

Q 19. Which of the following is not a necessary assumption to cardinal utility theory?

(a) Rationality of the consumer

(b) Constant marginal utility of money

(c) Additively of utility

(d) Perfect competitive market

Q 20. Cardinal approach to utility analyses-.

(a) One commodity at a time

(b) Two commodities at a time

(c) Many commodities at a time

(d) Does not analyse any commodity at a time

Q 21. Under Cardinal approach to utility, ... is the measuring rod of utility

(a) Money (b) Time

(c) Customer satisfaction (d) All of the above

Q 22. Which of the following is not an assumption under cardinal approach of utility analysis

(a) Utility is goods are independent of one another

(b) Marginal utility of money is constant.

(c) Utility is comparable across the goods

(d) Utility cannot be measured, but only ranked

Q 23. The cardinal approach of utility analysis assumes that utility is measurable and quantifiable. This means-

(a) Utility can be expressed in numbers

(b) Utility can be ranked across the products

(c) Utility schedule is derived by the consumer

(d) All of the above

Q 24. Cardinal approach to utility assumes Marginal utility of money is-.

(a) Zero (b) Constant

(c) Increasing (d) Decreasing

Total utility and Marginal utility

Q 25. .... is derived from different units of commodity consumed by a consumer.

(a) Total utility (b) Marginal utility

(c) Average utility (d) Ordinal utility

Q 26. ...... is the additional utility derived from additional unit of a commodity

(a) Marginal utility (b) Total utility

(c) Ordinal utility (d) Average utility

Q 27. Marginal utility can be stated as-

(a) TUn-TUn-1

(b) Additional utility derived from additional unit of a commodity.

(c) Change in total utility / change in quantity

(d) All of the above

Q 28. Marginal utility-

(a) Will always be positive

(b) Will always be negative

(c) Can be positive or negative but not zero

(d) Can be positive or negative or zero

Q 29. Total utility-

(a) Will always be positive

(b) Will always be negative

(c) Can be positive or negative but not zero

(d) Can be positive or negative or zero

Q 30. Total utility is maximum when-

(a) Marginal utility is zero

(b) MU is at its highest point

(c) MU is equal to average utility
(d) Average utility is maximum

Q 31. When total utility increases at diminishing rate, the marginal utility is.........

(e) Diminishing (f) Zero
(g) Maximum (h) One

Q 32. Marginal utility will always show-

(a) Increasing trend (b) Decreasing trend.
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 33. The Law of Diminishing Marginal Utility states that all else equal as consumption increases the marginal utility derived from each additional unit........

(a) declines (b) increases
(c) goes up to zero (d) remains constant

Q 34. Each want is ....

(a) Non satiable (b) Limited
(c) unlimited (d) Satiable

Q 35. Total utility increases at a.........

(a) Increasing rate (b) Decreasing rate
(c) Constant rate (d) None of the above

Q 36. Marginal utility curve is..........

(a) Downward sloping
(b) Slopes from left to right
(c) Negatively sloped
(d) All of the above

Q 37. Marginal utility varies.......... With the supply.

(a) directly (b) inversely
(c) simultaneously (d) None of the above

Q 38. Marginal utility of goods increases as the quantity .... Goods with the consumer increases.

(a) Complementary (b) Substitute
(c) Giffen (d) All of the above

Q 39. MU of the goods decreases as the quantity of .... goods with the consumer increases.

(a) complementary (b) Substitute
(c) Both (a) and (b) (d) None of the above

Q 40. When the economists speak of utility of a certain product, they are referring to-

(a) Demand of the product
(b) Usefulness of the product
(c) Satisfaction derived from the product
(d) Price of the commodity

Practical problems with hints

Q 41. Total utility derived by Miss Katrina by consuming 10 Mangoes is 99, where the total utility on consumption of 11 Mangoes is 95. What is the marginal utility of 11th Mango?

(a) -4 (b) 4
(c) 194 (d) -194

Q 42. Total utility that Mr. Khan derives from consumption of 10 Frooti is 250. MU of 11th frooti is -60. What will be the total utility of 11 frooti?

(a) -60 (b) 250
(c) 190 (d) 310

Q 43. Total utility that Mr. Rowdy derives from consumption of 6 Apple is 300. MU of 7th Apple is 30. What will be the total utility of 7 Apple?

(a) 330 (b) 270
(c) 300 (d) 30

No. of units	Total Utility	Marginal utility
0	0	?
1	**900**	**A**
2	B	800
3	**2400**	**C**
4	D	600
5	**3500**	**E**
6	F	400
7	**4200**	**G**
8	4400	H
9	**I**	**100**
10	J	
11	**4400**	**K**
12	L	-300

Use the given table and solve next 13 questions

Q 44. What is the value of "?" in the above table?
(a) 0 (b) 1
(c) -1 (d) 900

Q 45. What is the value of "A" in the above table?
(a) 0 (b) 1
(c) 900 (d) Cannot be determined

Q 46. What is the value of "B" in the above table?
(a) 2 (b) 1700
(c) 800 (d) Cannot be determined

Q 47. What is the value of "C" in the above table?
(a) 3 (b) 2400
(c) 700 (d) Cannot be determined

Q 48. What is the value of "D" in the above table?
(a) 3000 (b) 4
(c) 600 (d) Cannot be determined

Q 49. What is the value of "E" in the above table?
(a) 3500 (b) 5
(c) 500 (d) Cannot be determined

Law of diminishing Marginal utility

Q 50. Which law states that the more a consumer consumes a product, he derive lesser Utility from additional consumption
(a) Law of Equi-marginal utility
(b) Law of diminishing marginal utility
(c) Law of cardinal utility
(d) Law of Demand

Q 51. After reaching a saturation point, consumption of additional units of commodity causes-
(a) Total utility & Marginal utility both to increases
(b) Total Utility to fall and Marginal utility to increase
(c) Total utility to fall & Marginal utility to become negative
(d) Total utility to become negative & Marginal utility to fall

Q 52. Marginal utility of a commodity depends on its quantity and is-
(a) Inversely proportional to its quantity
(b) Not proportional to it quantity
(c) Independent of its quantity
(d) None of the above

Q 53. Which of the following is not an assumption of law of Diminishing Marginal Utility?
(a) Different units consumed should be identical in all respect
(b) There should be no time gap between consumption of one unit and another unit.
(c) Different unit consumed must be standard unit.
(d) None of the above

Q 54. Law of diminishing marginal utility, continuous consumption means there should be............... between consumption of one unit and another unit.
(a) Equal time gap (b) No time gap
(c) Long time gap (d) Any of the above

Q 55. Law of diminishing marginal utility will not hold good income of the consumer-
(a) Increases (b) Decreases
(c) Remains constant (d) Both (a) and (b)

Q 56. As per assumption to Law of diminishing marginal utility, in case of Money, gold, etc. greater quantity may-
(a) Increases the lust and utility thereof
(b) decreases the lust and utility thereof
(c) No effect on utility at all
(d) Nothing can be said

Q 57. Law of diminishing marginal utility is based on the assumption that the habits and tastes of the consumer-
(a) Must remain constant
(b) Must change
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 58. Utility may be affected by presence of?
(a) Complementary goods

(b) Substitute goods
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 59. Law of diminishing marginal utility applies only if………..measurement to utility is assumed.
(a) Cardinal (b) Ordinal
(c) Both (a) and (b) (d) Neither (a) nor (b)

Law of Equi-Marginal utility

Q 60. As per which law, 'If marginal utility of money spent on commodity X is greater than marginal utility of money spent on commodity Y, then the consumer will withdraw some money from purchase of Product Y and will spent on purchase of X, till MU of money in two cases becomes equal'?
(a) Law of demand
(b) Law of supply
(c) Law of Equi-marginal utility
(d) Law of diminishing marginal utility

Q 61. The consumer will attain maximum satisfaction, and will be in equilibrium when MU of money spent on various goods that he buys are-
(a) Equal (b) Decreasing
(c) Zero (d) Increasing

Q 62. Law of Equi-marginal utility applies because-
(a) Consumer will try to maximize his satisfaction
(b) There may be substitute available for each product in the market.
(c) The consumer will substitute one item for the other such that his MU>Price
(d) All of the above

Consumer Equilibrium and Consumer Surplus

Q 63. Rational person does not act unless-
(a) The action makes money for the person
(b) The action is ethical
(c) Marginal benefits exceeds marginal cost
(d) Marginal cost exceeds marginal benefits

Q 64. Rational decision means-
(a) Error-free decision
(b) One's choice that do not involve trade-off
(c) One's choices never vary
(d) One's choice be consistent with one's goals

Q 65. Buyer's willingness to pay is that buyer's-
(a) Minimum amount he is willing to pay for a product
(b) Producer's surplus
(c) Maximum amount he is willing to pay for a product
(d) Consumer's surplus

Q 66. As per which principle-'The consumer will be willing to buy a commodity, as long as the MU (additional satisfaction) derived is equal to price of the commodity'?
(a) Consumers Equilibrium
(b) Consumer's surplus
(c) Consumer advantage
(d) Consumer exploitation

Q 67. If the price paid by the consumer is more than the additional satisfaction derived from that item, the consumer will-
(a) Stop buying the item
(b) Start selling the item
(c) Start buying the item
(d) Nothing can be said

Q 68. Consumer surplus means-
(a) The area between average revenue and marginal revenue curves
(b) The area inside budget line
(c) Difference between the maximum amount a person is willing to pay for a good and its market price.
(d) Both (b) and (c)

Q 69. Law of consumer surplus is based on-
(a) Law of diminishing marginal utility
(b) Reveled preference theory
(c) Law of substitution
(d) All of the above

Q 70. Consumer surplus arises because-
(a) MU is initially higher than the price
(b) MU is always equal to price
(c) MU is always equal to zero
(d) MU is initially lower than the price

Q 71. MUx is the marginal utility of product X and Px is the price of the product, a rational consumer will consume Product X until-

(a) MUx> Px (b) Mux< Px
(c) MUx=0 (d) MUx= Px

Q 72. "The excess of the price which he would be willing to pay rather than go without the thing over that which he actually does pay in economic measure of his surplus satisfaction" is given by

(a) Alfred Marshall (b) Lionel Ribbins
(c) J.R. Hicks (d) Edge Worth.

Q 73. Consumer surplus is the area-

(a) Below demand curve and above price line
(b) Above supply cure and below price line
(c) Above Demand curve and below price line
(d) Any of the above

Q 74. The concept of Consumer surplus arises because -

(a) MU increases but price remains constant
(b) MU declines but price remains constant
(c) MU increases but price decreases
(d) MU decreases but price increases

Q 75. At the point of consumer's equilibrium

(a) Consumer's surplus is maximum
(b) Consumer's surplus is negative
(c) Consumer's surplus is zero
(d) All of the above

Q 76. In the concept of consumer Equilibrium and consumer surplus, for the quantity purchased at equilibrium level marginal utility is-

(a) Positive (b) Negative
(c) Equal to price (d) Zero

Q 77. Consumer surplus arise in respect of-

(a) All quantities purchased up to consumer's equilibrium level
(b) All quantities purchased beyond `consumer's equilibrium level
(c) Quantities purchased at equilibrium level only
(d) None of the above

Q 78. Consumer surplus is higher in case of-

(a) Luxuries (b) Comfort
(c) necessities (d) All of the above

Q 79. A monopolist will try to take maximum advantage of consumer surplus by adopting-

(a) Price Equilibrium (b) Price Exploitation
(c) Price rigidity (d) Price discrimination

Q 80. Which of the following statements regarding consumer surplus is not true?

(a) It is useful for designing government policies and implementing welfare programs
(b) It helps in monopolist to fix the price of a commodity
(c) On the basis of consumer surplus only domestic trade can be advocated and international trade should be avoided
(d) It can also be used to measure health of the economy

Q 81. .... Consumer surplus indicates higher level of efficiency in economy.

(a) Higher (b) Lower
(c) Balanced (d) Negative

Q 82. .... is useful for designing government policies and implementing welfare programs.

(a) Law of diminishing return
(b) Consumer surplus
(c) Law of Equi-marginal utility
(d) Income and substitution effect

Q 83. Under which of the following market type consumer surplus will be generally maximum?

(a) Perfect competition
(b) Monopolistic competition
(c) Monopoly
(d) All of the above

Q 84. If MUx/Px> MUy/Py then the consumer will-

(a) Increase consumption of X and reduce consumption of Y
(b) Increase consumption of Y and reduce consumption of X

(c) Will increase consumption of both the products X and Y

(d) Will decrease consumption of both the products X and Y

Q 85. In case of necessaries, the Marginal utility for first few items will be-

(a) Zero (b) High

(c) Infinite (d) None of the above

Q 86. Which of the following statement/s is true -

i. The consumer surplus derived from a product is affect by availability of substitute

ii. The consumer surplus derived from a product is affect by availability of complementary items

iii. The concept of consumer surplus fails in case of articles which are used for their prestigious value. Example diamond.

iv. If we make assumption that utility cannot be expressed in monetary terms, the concept of consumer surplus will still apply

(a) i,ii,iv (b) i,ii,iii,iv

(c) i,ii,iii (d) Only iv

Q 87. The concept of consumer surplus is based on the assumption that Marginal utility of the money is-

(a) Zero (b) Infinite

(c) Negative (d) Constant

Q 88. Which of the following is the drawback of consumer surplus-

(a) It cannot be measured in terms of money as the marginal utility of money of money changes

(b) It is highly hypothetical concept

(c) It ignores interdependency of the goods

(d) All of the above

Practical problems on Consumer equilibrium and consumer surplus

Q 89. Consumer consumed three products. MU derived from consumption of three products is INR 400, INR 350, and INR 300. If price of the product is 300, what is the consumer surplus?

(a) 0 (b) 100

(c) 150 (d) 50

Q 90. Consumer consumed three products. MU derived from consumption of first two units is INR 400, INR 350. If the price of the product is INR 300 and the consumer is in equilibrium at 3 units, the MU of 3rd unit is-

(a) 100 (b) 200

(c) 300 (d) 400

Q 91. If the prices of ice-cream and chocolate are 40 and 30 respectively and MU of chocolate is 150, what is MU of ice cream assuming consumer is in equilibrium?

(a) 112.5 (b) 125

(c) 200 (d) 225

Q 92. Suppose the price of new phone is 5000 and Mr. Ranveer values new phone at 7000. What will be the consumer surplus if Mr. Ranveer buys the phone?

(a) 2000 (b) 3000

(c) 12000 (d) 5000

Q 93. Suppose the price of new bike is 15000 and Mr. M.S values new bike at 14000. What will be the consumer surplus if Mr. Dhoni buys the bike?

(a) 29000 (b) -1000

(c) 0 (d) Nothing can be said

Q 94. Suppose there are three computes available to be purchased. Mr Shyam is willing to pay 25000, Mr Raju is willing to pay 20000 and Mr. Babubhai is ready to pay 15000. If the price of the computer is 20000, what is the consumer surplus in this market and how many units will be sold?

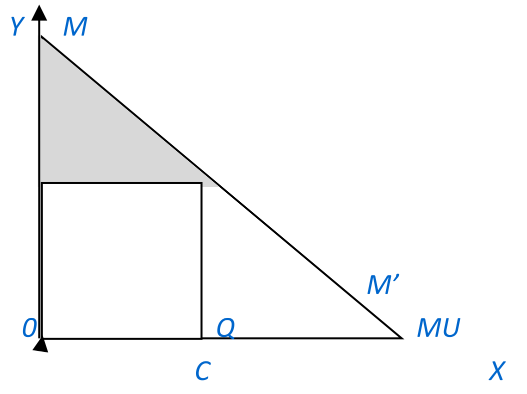
(a) Consumer surplus is 5000 and 2 units will be sold.

(b) Consumer surplus is 60,000 and 2 units will be sold.

(c) No consumer surplus and 2 units will be sold

(d) Consumer surplus is 5000 and 3 units will be sold.

Use the following diagram to solve the next 5 questions-



Quantity of commodity along X axis
Price and Marginal utility along Y axis

Q 95. In the above diagram, market price at consumer equilibrium is given by-
(a) OA (b) OC
(c) MM' (d) None of the above

Q 96. In the above diagram, consumers total utility is given by-
(a) Area under OMBC (b) Area under OABC
(c) Area under AMB (d) None of the above

Q 97. In the above diagram, price paid by the consumer is given by-
(a) Area under OMBC (b) Area under OABC
(c) Area under AMB (d) None of the above

Q 98. In the above diagram, consumer surplus is given by-
(a) Area under OMBC (b) Area under OABC
(c) Area under AMB (d) None of the above

Q 99. In the above diagram, consumer attains equilibrium by consuming....... units
(a) OA (b) OC
(c) MM' (d) None of the above

4. Ordinal Approach.

Q 100. As per the ordinal approach- Measurement of utility us not possible through n=money
(a) Measurement of utility is possible but cannot be ranked
(b) Measurement of utility is not possible in cardinal number but can be ranked
(c) None of the above

Q 101. Which of the following Economists are not concerned with ordinal approach to utility
(a) Hicks (b) Allen
(c) Marshall (d) All of the above

Q 102. As per............ approach to utility 'Human Satisfaction is psychological phenomenon and cannot be measured quantitatively?
(a) Cardinal (b) Ordinal
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 103. Ordinal approach to utility analyses-
(a) One commodity at a time.
(b) Two commodities at a time
(c) Many commodities at a time
(d) Does not analyses any commodity at all

Q 104. Ordinal utility approach is also called as-
(a) Indifference curve approach
(b) Hicks and Allen approach
(c) Both (a) and (b)
(d) None of the above

Q 105. Which of the approaches dispense with money measurement concept of utility?
(a) Cardinal approach (b) Ordinal approach
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 106. Which of the approaches helps to explain the Law of Demand?
(A) Cardinal (B) Ordinal
(C) Both (a) and (b) (D) Neither (a) nor (b)

Q 107. .... shows various combinations of two goods that give same amount of satisfaction.
(a) Isoquants (b) Isocost curve
(c) Marginal utility curve (d) Indifference curve

Q 108. Indifference curve shows various combinations of two goods that give...... amount of satisfaction –
(a) Lower (B) Higher
(C) Same/ equal (D) Constant

Q 109. All point in indifference curve represents-
(a) Same satisfaction (b) Equal satisfaction
(c) Similar satisfaction (d) All of the above

Q 110. Consumer is said to be .... among different points on IC–
(a) Intelligent (b) Irrational
(c) Indifferent (d) Intersecting

Q 111. Indifference curve slopes-
(a) Downward to the right
(b) Upward to the right

(c) Downward to the left
(d) Upward to the left

Q 112. Indifference curve is convex to the origin, the reason is-
(a) Increasing marginal rate of substitution
(b) Constant marginal rate of substitution
(c) Diminishing Marginal rate of substitution
(d) None of the above

Q 113. The reason for downward sloping Indifference curve is-
(a) Diminishing MRS (b) Increasing MRS
(c) Constant MRS (d) None

Q 114. Indifference curve –
(a) Is downward sloping
(b) Had negative slope
(c) Slopes downwards towards right
(d) All of the above

Q 115. Indifference curve slopes down towards right, this is because more of one commodity and less of another gives -
(a) Same satisfaction
(b) Less satisfaction
(c) Maximum satisfaction
(d) Infinite satisfaction

Q 116. If two goods are perfect substitute of each other, then Indifference curve relating to two goods will be-
(a) Concave (b) Curvilinear
(c) Parallel to X axis (d) Linear

Q 117. If two goods are perfect substitute of each other, then Indifference curve relating to two goods will be-
(A) Convex with constant MRS
(B) Straight line with constant MRS.
(C) Straight line parallel to Y axis
(D) Concave to the origin

Q 118. Which of the following is not a feature of Indifference curve-
(A) IC must be downward sloping to the right
(B) The elasticity of substitution between two goods to a consumer is zero.
(C) Convexity of the curve is due to diminishing nature of MRS
(D) Total effect of a change in price of a product on its quantity demanded is called as price effect.

Q 119. If an indifference curve is L shaped, then two goods will be-
(A) Perfect Substitute goods
(B) Perfect Complementary goods
(C) Substitute goods
(D) Complementary goods

Q 120. .... depicts complete picture of customer's taste and preferences
(a) Supply curve
(b) Budget line
(c) Indifference map
(d) Demand curve

Q 121. The farther the IC is from the Origin, then-
(A) The lower is the satisfaction level
(B) The higher is the satisfaction level
(C) Same satisfaction level will be obtained
(D) Nothing can be said

Q 122. A set of indifference curves is called as ....
(a) Price map
(b) Consumer preference
(c) Budget line
(d) Indifference map

Q 123. Combination lying on higher Indifference curve contains more of-
(A) One commodity only
(B) More of both commodity
(C) Either (a) or (b)
(D) Neither (a) nor (b)

Q 124. ....indicates how much of one commodity is substituted for how much of another commodity
(A) Marginal utility
(B) Marginal income
(C) Marginal rate of substitutions
(D) Marginal cost

Q 125. Marginal rate of substitution is indicated by-
(A) Slope of Indifference curve at a particular point.
(B) Angle between IC and X axis.
(C) Angle between IC and Y axis
(D) None of the above

Q 126. Marginal rate of substitution indicates movement-
(A) From higher IC to Lower IC
(B) From Lower IC to Higher IC
(C) Along the Same IC
(D) Any of the above

Q 127. General assumption in consumer behavior under Indifference curve analysis is that more goods are preferred to less of them. This statement is
(a) True
(b) False
(c) Partially true
(d) Cannot be commented at all

Q 128. .... Shows all those combinations of two goods which a consumer can buy spending his given money income on two goods at their given prices.
(A) Budget line
(B) Indifference curve
(C) Demand curve
(D) Supply curve

Q 129. Every point on Budget line represents ..... spending by the consumer
(A) Over (B) Under
(C) Full (D) Any of the above

Q 130. In order to get maximum satisfaction, the consumer as to work under some constrains. These constrains are explained by-
(A) Price line
(B) Budget line
(C) Price opportunity line
(D) All of the above

Q 131. If Marginal rate of substitution is increasing then shape of Indifference curve is-
(A) Concave to the origin
(B) Convex to the origin
(C) L shaped
(D) None of the above

Q 132. Budget line/ price line of a consumer is-
(A) Parallel to X axis
(B) Parallel to Y axis
(C) Straight line join ing two axis
(D) None of the above

Q 133. If a combination is below price line, it indicates that there is-
(A) Over utilisation of resources
(B) Underutilisation of resources
(C) Optimum utilisation of resources
(D) None of the above

Q 134. If a combination is above price line, it indicates that there is
(A) Over utilisation of resources
(B) Optimum utilisation of resources
(C) Under-utilisation of resources
(D) None of the above

Q 135. Budget line shows all the combination of....... products
(A) Two (B) Three
(C) Many (D) None of the above

Q 136. As the consumer's income and spending increase, the price/ budget line
(A) Remains at the same level
(B) Shifts towards the origin
(C) Shifts away from the origin
(D) None of the above

Q 137. As per Indifference curve analysis, in order to maximise satisfaction, a consumer will try to-
(a) Reach to higher IC possible
(b) Reach to lowest IC possible
(c) Will remain on same IC
(d) IC has no relation with consumer's satisfaction

Q 138. The consumer is in equilibrium at a point where the Budget line-
(A) Cut an indifference curve
(B) Is tangential to an indifference curve
(C) Is below Indifference curve

(D) Is above the Indifference curve

Q 139. The consumer is in equilibrium when -

(A) He save at least one-third of his income

(B) EMI is less than Salary of consumer

(C) Slope of price line is equal to slope of Indifference curve

(D) Any of the above

Q 140. When the consumer is at equilibrium point on Indifference curve, which of the following equation is satisfied

(A) MRSXY=MUX/MUY= PX/PY

(B) MUX/PX= MUY/PY

(C) Both A&B

(D) None of the above

Q 141. Under Income effect, the consumer will-

(A) Moves along original Indifference curve

(B) Moves to higher or lower Indifference curve

(C) Always purchase higher quantity of both the commodities

(D) None of the above

Q 142. In consumer Equilibrium analysis under Indifference curve approach, the consumer is assumed to spend his income............. on two goods

(a) Keeping 20 % Margin

(b) Wholly

(c) Partially

(d) Either (b) or (c)

Q 143. MUx of X is 100 and MUy is 300. If the price of Y is 6000, what will be the price of X at Equilibrium?

(a) 6000 (b) 9000

(c) 2000 (d) 4000

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	A	31	A	61	A	91	C	121	B
2	D	32	B	62	D	92	A	122	D
3	C	33	A	63	C	93	B	123	C
4	B	34	D	64	D	94	A	124	C
5	B	35	B	65	C	95	A	125	A
6	A	36	D	66	A	96	A	126	C
7	D	37	B	67	A	97	B	127	A
8	D	38	A	68	C	98	C	128	A
9	C	39	B	69	A	99	B	129	C
10	D	40	C	70	A	100	B	130	D
11	A	41	A	71	D	101	C	131	A
12	C	42	C	72	A	102	B	132	C
13	D	43	A	73	A	103	B	133	B
14	A	44	A	74	B	104	C	134	A
15	A	45	C	75	C	105	B	135	A
16	B	46	B	76	C	106	C	136	C
17	C	47	C	77	A	107	D	137	A
18	D	48	A	78	C	108	C	138	B
19	D	49	C	79	D	109	D	139	C
20	A	50	B	80	C	110	C	140	C
21	A	51	C	81	A	111	A	141	B
22	D	52	A	82	B	112	C	142	B
23	A	53	D	83	A	113	A	143	C
24	B	54	B	84	A	114	D		
25	A	55	D	85	C	115	A		
26	A	56	A	86	C	116	D		
27	D	57	A	87	D	117	B		
28	D	58	C	88	D	118	B		
29	A	59	A	89	C	119	B		
30	A	60	C	90	C	120	C		

Chapter 2B

Demand Basics

Q 1. ________refers to refers to the quantity of goods or services those Consumers are willing and able to purchase / buy in a given market, at various prices, in a given period of time.

(a) Supply (b) D em nd
(c) Utility (d) Surplus

Q 2. Demand for a commodity refers to —

(a) Desire for the commodity
(b) Need for the commodity
(c) Quantity demanded of that commodity
(d) Quantity of the commodity demanded at a certain price during any particular period of time

Q 3. On which of the following the Effective Demand for a thing depends?

(a) Desire
(b) Means to purchase (Ability to Buy)
(c) Willingness to use those means
(d) All of these

Q 4. For want to become an Effective Demand, it must be backed by the —

(a) Ability to buy the product
(b) Necessity to buy the product
(c) Desire to buy the product
(d) Utility of the product

Q 5. Which of the following is an important aspect in demand?

(a) Ability to buy the product
(b) Willingness to spend
(c) Availability of the product in the market
(d) All of the above

Q 6. For Demand to be effective, the Commodity should be available —

(a) At a certain price
(b) At a certain place
(c) At a certain time
(d) All of the above

Q 7. Demand arises in respect of

(a) Socially desirable goods, e.g. food, clothing
(b) Harmful goods, e.g. liquor
(c) Both A & B
(d) Neither A nor B

Q 8. In the context of Demand, the availability of money with the Consumer, in order to purchase the Commodity is called —

(a) Consumer Surplus (b) Purchasing Power
(c) Cost of living (d) Standard of living

Q 9. Purchasing Power refers to —

(a) Desire to buy the product
(b) Necessity to buy the product
(c) Ability to buy the product
(d) Utility of the product

Q 10. Purchasing power of money fall when

(a) Price level increases
(b) Price level decreases
(c) Income level increases
(d) Money supply falls

Q 11. Unless Demand is backed by purchasing power or ability to pay, it does not constitute Deman(d) This statement is —

(a) True (b) False
(c) Partially True (d) Nothing can be said

Q 12. Demand arises in respect of —

(a) Capital Goods only
(b) Consumer Goods only
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 13. Demand for Final Consumption arises in —

(a) Household Sector only
(b) Government Sector only
(c) Both Household and Government Sectors
(d) Neither Household nor Government Sector

Q 14. Demand for Intermediate Consumption arises in

(a) Household Consumers
(b) Government Enterprises only
(c) Corporate Enterprises only

(d) All Producing Sectors of the economy

Q 15. Demand for Resources and Factors of Production is –

(a) Direct Demand
(b) Derived Demand
(c) Irrelevant in Economics
(d) Not a Demand at all

INDIVIDUAL AND MARKET DEMAND

Q 16. Individual Demand is also called —

(a) Industrial Demand (b) Market Demand
(c) Household Demand (d) All of the above

Q 17. Individual Demand shows the quantities of demand for a commodity at various prices by —

(a) A particular consumer
(b) The entire market
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 18. Industry Demand is also called -

(a) Household Demand (b) Market Demand
(c) Individual Demand (d) All of the above

Q 19. Market Demand shows the quantities of demand for a commodity at various prices by —

(a) a particular consumer
(b) the entire market
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 20. Market Demand is the sum total of —

(a) All quantities that Producers can produce
(b) All quantities actually sold in the market
(c) All quantities demanded by individual households and consumers
(d) All of the above

Q 21. If A = Household Demand and B = Market Demand, then —

(a) A > B (b) A < B
(c) A = B = 0 (d) None of the above

Q 22. If Household Demand and Market Demand are equal in a situation, it means that —

(a) There is only one Producer
(b) There is only one Consumer
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 23. A relative price is

(a)Price expressed in terms of money
(b)What you get paid for baby-sitting your cousin
(c)The ratio of one money price to another
(d)Equal to a money price

Q 24. Which of the following influence most the price level in the very short—run period?

(a) Demand (b) Supply
(c) Cost (d) Production

Q 25. Which of the following is not a determinant of Demand?

(a) Price of the Commodity
(b) Price of Related Commodities
(c) Level of Consumers' Income
(d) None of these

Q 26. All of the following are determinants of demand except

(a) Tastes and Preferences
(b) Quantity supplied
(c) Income
(d) Price of related goods

Q 27. Which of the following is a determinant of Individual demand?

(a) Cost of Production
(b) Nature of Product, i.e. socially desirable vs other goods
(c) Tastes and Preferences of Consumers
(d) Economic Policies of the Government

Q 28. When a Consumer prefers a commodity due to prestige attached to it, it is known as

(a) Substitution Effect (b) Demonstration Effect
(c) Income Effect (d) All of the above

Q 29. When a Consumer wants a product by seeing another person use that product, it is called —

(a) Disturbance Effect (b) Comparison Effect

(c) Demonstration Effect (d) Marshallian Effect

Q 30. Demonstration Effect is generally found in respect of
(a) Necessary Goods
(b) Luxury and Quasi—Luxury Goods
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 31. Goods covered by Demonstration Effect can be best described as -
(a) Necessities of Life
(b) Conspicuous Necessities
(c) Absolute Luxuries
(d) All of the above

Q 32. In which of the following will the Demonstration Effect be high?
(a) Water (b) Rice
(c) Cellphone (d) Plant and Machinery

Q 33. _______are goods which are consumed together or simultaneously.
(a) Inferior Goods
(b) Normal Goods
(c) Complementary Goods
(d) Substitute Goods

Q 34. If an increase in the price of Blue Jeans leads to an increase in the demand for Tennis Shoes, then Blue Jeans and Tennis Shoes are
(a) Complements (b) Inferior Goods
(c) Normal Goods (d) Substitutes

Q 35. If two goods are Complements, it means that a rise in the price of one commodity will lead to —
(a) Upward Shift in demand for the other commodity
(b) Rise in the price of the other commodity
(c) Downward Shift in demand for the other commodity
(d) No shift in the demand for the other commodity

Q 36. In case of Complementary Goods, increase in price of a product will —
(a) Decrease the demand for the other product
(b) Increase the price of the other product
(c) Increase the demand for the other product
(d) Not affect the demand for the other product

Q 37. If X and Y are Complementary Goods, the price of X and the Demand of Y are —
(a) directly related
(b) inversely related
(c) proportionally related
(d) any of the above

Q 38. If X and Y are Complementary Goods, if there is an increase in Price of X, then —
(a) Demand of X will decrease and Demand of Y will increase.
(b) Demand of X will increase and Demand of Y will decrease.
(c) Demand of X and Y will increase.
(d) Demand of X and Y will decrease.

Q 39. _______are goods which are consumed in place of one another.
(a) Inferior Goods
(b) Normal Goods
(c) Complementary Goods
(d) Substitute Goods

Q 40. In case of Substitute Goods, increase in price of a product will —
(a) Decrease the demand for the other product
(b) Increase the price of the other product
(c) Increase the demand for the other product
(d) Not affect the demand for the other product

Q 41. If X and Y are Substitute Goods, the price of X and the Demand of Y are —
(a) Directly related
(b) Inversely related
(c) Proportionally related
(d) Any of the above

Q 42. If the Price of Product A increases relative to the Price of Substitute B & C, the demand for —
(a) B will increase (b) C will increase
(c) B and C will increase (d) B and C will decrease

Q.43 If Tea and Coffee are Substitutes, a fall in the Prices of Tea leads to —

(i) Rise in the demand for Tea
(ii) Fall in the supply of Coffee
(iii) Fall in the demand for Coffee
(iv) Rise in the supply of Tea

(a) Both (ii) and (iv) above
(b) Both (i) and (iii) above
(c) Both (ii) and (iii) above
(d) Both (iii) and (iv)

Q 44. Which of the following Statements is not true about Individual Demand?

(a) The decision to purchase is always influenced by the Income Constraint.
(b) Selection of products and services are based on the Opportunity Cost.
(c) Consumers measure their Opportunity Cost in terms of the price they pay for the products and services they forego.
(d) Decision to purchase is never influenced or concerned with the Income Constraint.

Q 45. What effect does an increase in the price of a product have on the Purchasing Power of the Consumer?

(a) Increases
(b) Decreases
(c) No effect
(d) Decreases initially, but increases

Q 46. If demand decreases with an increase in money income of Consumers, such goods are called —

(a) Normal Goods (b) Inferior Goods
(c) Luxury Goods (d) All of the above

Q 47. The Giffen Effect in respect of Inferior Goods was observed in the case of —

(a) Rice and Wheat (b) Wheat and Meat
(c) Bread and Meat (d) Bread and Rice

Q 48. As income levels increase, the demand for goods satisfying Necessities of life, will be to the increase in income.

(a) Less than proportionate
(b) More than proportionate
(c) Proportionate
(d) Nothing can be said

Q 49. If Income Levels increase, and the demand for goods increase by less than proportionate extent, such goods will be —

(a) Inferior Goods (b) Necessary Goods
(c) Luxury Goods (d) Nothing can be said

Q 50. If Income Levels increase, and the demand for goods increase by more than proportionate extent, such goods will be —

(a) Inferior Goods (b) Necessary Goods
(c) Luxury Goods (d) Nothing can be said

Q 51. As Income Levels increase beyond a certain extent, the propensity to consume —

(a) Reduces (b) Increases
(c) Remains constant (d) Becomes zero

Q 52. Generally, larger size of population of a country or a region implies for all commodities as such.

(a) Higher demand (b) Lower demand
(c) No demand (d) Ineffective demand

Q 53. In case of unequal distribution of income in the country, the propensity to consume will be ...., and demand for Consumer Goods will be

(a) Higher, lower (b) Higher, higher
(c) Lower, higher (d) Lower, lower

Q 54. If the Consumers expect a decrease in prices of the product in the future, its current demand will be —

(a) higher (b) lower
(c) Nil (d) Nothing can be said

Q 55. Demand is affected by weather conditions and seasonal aspects also. This statement is —

(a) Tr ue (b) False
(c) Partially True (d) Nothing can be said

DEMAND CURVE

Q 56. Demand Schedule shows the relation between —

(a) Price and Quantity supplied
(b) Price and Quantity demanded
(c) Income and Quantity supplied
(d) Income and Quantity demanded

Q 57. *Indicates the changes in Consumers' purchasing habits, depending on the price variation of a particular product.*

(a) Total Utility Curve
(b) Demand Schedule
(c) Production Possibility Curve
(d) Purchasing Power Parity

Q 58. *A Demand Curve shows —*

(a) Quantity demanded of a product at various levels of income of the Consumer.
(b) Quantity demanded of a product, at various levels of price of the product
(c) Amount of money spent by a Consumer on a product at various levels of price
(d) Quantity supplied of a product at various levels of price of the product

Q 59. *A Demand Curve deals with —*

(a) One product at a time
(b) Two products at a time
(c) Many products at a time
(d) None of the above

Q 60. *While drawing the Demand Curve, the change takes place in which of the following factors?*

(a) Supply of the product
(b) Quality of the product
(c) Price of the product
(d) Technology used in offering the product

Q 61. *Demand Curve in most cases slopes—*

(a) Upward towards left
(b) Vertical and parallel to Y—axis
(c) Downward towards right
(d) Horizontal and parallel to X—axis

Q 62. *Demand Curve in most cases has a —*

(a) Positive Slope
(b) Negative Slope Zero Slope
(c) Infinity Slope

Q 63. *Demand Curve—*

(a) Will be a Straight Line
(b) Will be a Curve
(c) Either (a) or (b)
(d) Neither (a) nor (b)

Q 64. *All but one of the following are assumed to remain the same while drawing an individual's Demand Curve for a product. Which one is it?*

(a) Preference of the individual
(b) His monetary income
(c) Price
(d) Price of related goods

Q 65. *What is the other name given to the Demand Curve?*

(a) Profit Curve
(b) Average Revenue Curve
(c) Average Cost Curve
(d) Indifference Curve

Q 66. *Why is the Demand Curve otherwise known as the Average Revenue Curve?*

(a) Price paid for each unit by the Consumer, is the Average Revenue per unit for the Seller
(b) Price paid for each unit by the Consumer, is the Total Revenue for the Seller
(c) Price paid by Consumer is equal to the Seller's willingness to sell the product.
(d) All of the above

Q 67. *The Total Area under the Demand Curve of a product measures —*

(a) Marginal Utility
(b) Total Utility
(c) Consumer's Surplus
(d) Producers' Surplus

Q 68. *If Marginal Utility of .a product remains constant, the Demand Curve will be —*

(a) Convex
(b) Concave
(c) Straight line
(d) None of the above

Q 69. *In a Demand Curve, the Horizontal Axis will be—*

(a) Quantity Demanded
(b) Price of the Product
(c) Income Levels of Consumer
(d) Any of the above

Q 70. *In a Demand Curve, the Vertical Axis will be —*

(a) Quantity Demanded
(b) Price of the Product
(c) Income Levels of Consumer
(d) Any of the above

Q 71. The Law of Demand is explained by —

(a) Cardinal Approach (b) Ordinal Approach

(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 72. The Law of Demand is —

(a) A quantitative statement

(b) A qualitative statement

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 73. The Law of Demand is a —

(a) Positive Statement

(b) Normative Statement

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 74. The and is a principle relating to—

(a) Micro—Economics (b) Macro—Economics

(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 75. The term "Ceteris Paribus" in the Law of Demand denotes —

(a) All factors remaining constant

(b) All factors except one remaining constant

(c) All factors being variable

(d) All of the above

Q 76. Which of these is a variable factor in the Law of Demand?

(a) Consumers' Income Level

(b) Economic Conditions of Boom / Recession

(c) Quality of the Product

(d) Price of the Product

Q 77. Why does the Law of Demand operate?

(a) Income Effect (b) Substitution Effect

(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 78. The total effect of a price change of a commodity is

(a) Substitution Effect + Price Effect

(b) Substitution Effect + Income Effect

(c) Substitution Effect + Demonstration Effect

(d) Substitution Effect minus Income Effect

Q 79. When we say that the Demand for a commodity depends upon the money income of the Consumer, we are referring to —

(a) Income Effect

(b) Substitution Effect

(c) Demonstration Effect

(d) Utility Effect

Q 80. As a result of a fall in prices of the commodity, the Consumer's increases.

(a) Real Income (b) Purchasing Power

(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 81. When increase in his Real Income induces a Consumer to buy more of a Commodity whose prices has fallen, it is called —

(a) Inducement Effect

(b) Substitution Effect

(c) Income Effect

(d) Utility Effect

Q 82. Which of the following statements best describes the Income Effect?

(a) It is the change in quantity demanded as a result of the changes in the income, keeping other things constant

(b) It is the change in quantity demanded of substitute goods, as a result of change in the price of a product, keeping the income constant

(c) It is the change in quantity demanded of a product, as a result of change in the real income because of change the price of the product

(d) It is the change in the price of a good because of a rise or fail in the real income of the consumer

Q 83. When the price of a Commodity falls, the Consumer

(a) Can buy the same quantity of the commodity with lesser money

(b) Can buy more of the same commodity with the same money

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 84. When the price of a Reynolds pen falls, ceteris paribus, Buyers substitute Reynolds Pen for other pens that are now relatively more expensive. This is called —

(a) Price Effect (b) Substitution Effect
(c) Income Effect (d) Veblen Effect

Q 85. The 'Substitution Effect' takes place due to change in

(a) Income of the Consumer
(b) Prices of the Commodity
(c) Relative Prices of the commodities
(d) All of the above

Q 86. Refers to the Consumer's Reaction to a change in the relative prices of two products, keeping the Total Utility constant.

(a) Consumer Surplus
(b) Income Effect
(c) Substitution Effect
(d) Law of Diminishing Marginal Utility

Q 87. Which of the following statement best describes the Substitution Effect?

(a) When the price of a product rises, Consumers stop consuming the product.
(b) When the price of a product rises, Consumers tend to substitute it with a relatively expensive product
(c) When the price of a product rises, Consumers tend to substitute it with a relatively inexpensive product
(d) When the price of a product fails, consumers tend to substitute in with a more expensive product

Q 88. In normal circumstances, if the Government increases the tax on any product, the demand for the product in the short run

(a) Increases
(b) Decreases
(c) Remain unchanged
(d) Tax has nothing to do with the demand for any product

Q 89. The segregation between Income Effect and Substitution Effect is adequately explained by —

(a) Cardinal Approach (b) Ordinal Approach
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 90. When the price of a product falls, its Demand increases because —

(a) New Consumers start buying the product
(b) Existing Consumers buy more quantities of the product
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 91. The Law of Demand is explained by —

(a) Law of Diminishing Marginal Utility
(b) Law of Indifference Curves
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 92. Under the Law of Diminishing Marginal Utility, Consumers continue buying till Price equals Marginal Utility. Hence at lower prices —

(a) Higher quantities will be demanded
(b) Lower quantities will be demanded
(c) No quantities will be demanded
(d) All of the above

Q 93. Under the Indifference Curve approach, if the price of a product is lower, the Consumer will attain equilibrium —

(a) At a higher Indifference Curve
(b) At a lower Indifference Curve
(c) At the origin point
(d) At infinity

EXCEPTIONS TO THE LAW

Q 94. Conspicuous Goods are also called —

(a) Necessary Goods (b) Prestige Goods
(c) Giffen Goods (d) Basic Goods

Q 95. Conspicuous goods are also called as:

(a) Veblen (b) Snob
(c) Prestigious (d) All of the above

Q 96. Conspicuous Goods —

(a) Are an exception the Law of Demand
(b) Follow the Law of Demand
(c) Either (a) or (b)
(d) Neither (a) nor (b)

Q 97. When Consumers feel that if the commodity is expensive, that it has got more utility, we are referring to —

(a) Inferior Goods (b) Normal Goods
(c) Conspicuous Goods (d) Giffen Goods

Q 98. Which of the following is an example of Conspicuous Goods?

(a) Diamonds (b) Cooking Gas
(c) Petrol (d) Rice

Q 99. If the demand for Petrol remains the same even after the increase in petrol prices, it means Petrol is a —

(a) Normal Good (b) Necessity
(c) Luxury Good (d) Inferior Good

Q 100. Giffen Goods are those goods —

(a) For which Demand increases as Price increases
(b) Which have a high income elasticity of demand
(c) Which are in short supply
(d) None of these

Q 101. An Inferior Commodity is one which is consumed in smaller quantities when the income of consumer —

(a) Becomes nil (b) Remains the same
(c) Falls (d) Rises

Q 102. Giffen Goods are goods which —

(a) Are considered inferior by Consumers
(b) Occupy a substantial place in the Consumer's budget
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 103. Giffen Goods are —

(a) Conspicuous Goods
(b) Normal Goods
(c) Conspicuous Necessities
(d) Inferior Goods

Q 104. When people buy more of a product when its price goes up, the product will be —

(a) Conspicuous Goods (b) Normal Goods
(c) Inferior Goods (d) Luxury Goods

Q 105. When due to their constant usage, certain goods have become necessities of life, they are referred to as_

(a) Conspicuous Goods
(b) Normal Goods
(c) Conspicuous Necessities
(d) Giffen Goods

Q 106. Under which of the following situations the Law of Demand will not operate?

(a) Conspicuous Goods (b) Giffen Goods
(c) Absolute Necessities (d) All of the above

Q 107. Under which of the following situations the Law of Demand will not operate?

(a) Price Change expected by Consumer
(b) Consumer's lack of knowledge about prices
(c) Irrational purchasing pattern by Consumer
(d) All of the above

Q 108. In case of Contraction of Demand, there is a —

(a) Inward shift of the Demand Curve
(b) Outward shift of the Demand Curve
(c) Upward movement on the same Curve
(d) Downward movement on the same Curve

INCREASE OR DECREASE IN DEMAND

Q 109. Change in Demand as a result of the factors other than Price is known as —

(a) Shift in Demand
(b) Increases and Decrease in demand
(c) Change in Demand
(d) All of these

Q 110. Increase in Demand leads to —

(a) Inward shift of the Demand Curve
(b) Outward shift of the Demand Curve
(c) Upward movement on the same Curve
(d) Downward movement on the same Curve

Q 111. Which of the following results in a shifting of the Demand Curve?

(a) Increase in the tax on cigarettes leading to their fall in demand
(b) Slashing of ad rates by a television channel resulting in a rise in the number of ads
(c) Rise in the electricity harges leading to lesser consumption

(d) All of these

Q 112. In which of the following cases, does a shift in demand take place?{Omit this question}

(a) Fall in demand for cigarettes, as a result of increased taxes
(b) Rise in the demand for two wheelers due to decrease in the sales tax
(c) Decline in electric power consumption due to rise in the power charges
(d) Decline in the sales of Diwali crackers due to sudden rains and floods

Q 113. Shift in demand does not take place due to —

(a) Change in the price of the product
(b) Change in the tastes and preferences
(c) Change in consumer habits
(d) Change in population

Q 114. An Increase in Demand can result from —

(a) Decline in Market Price
(b) Increase in Income
(c) Reduction in the Price of Substitutes
(d) Increase in the Price of Complements

Q 115. A drought in India leads to unusually low level of wheat production. This would lead to a rise in the 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) Supply Curve shifting to the right
(d) Demand Curve shifting to the left

Q 116. 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 quantity demanded of apples and in supply of 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 supply of apples.
(d) There is an increase in the demand for apples and an increase in the quantity Supplied

Q 117. Fall in the price of Substitute Goods leads to

(a) Increase in Demand
(b) Decrease in Demand
(c) Expansion of Demand
(d) Contraction of Demand

Q 118. Which of the factors does not cause Increase in Demand?

(a) Rise in the price of Substitute Goods
(b) Fall in price of this product
(c) Increase in population
(d) Increase in Income Levels of Buyers

Q 119. Increase in Demand is caused by —

(a) Change in Buyer Preferences and Tastes in favour of this commodity
(b) Re—distribution of income to Consumers who favour this commodity
(c) Increase in population
(d) All the above

(C) ELASTICITY OF DEMAND — MCQs ELASTICITY BASICS

Q 120. The concept of Elasticity of Demand was developed by —

(a) Alfred Marshall (b) Edwin Cannon
(c) Paul Samuelson (d) Fredric Bonham

Q 121. Two important factors which make difference in the Elasticity of Demand for different commodities are

(a) Preferences and Income
(b) Income and Expenditure
(c) Quantity and Price of the Commodity
(d) Tax Rates and Level of Income

Q 122. Elasticity of Demand refers to —

(a) The responsiveness of the quantity demanded of a commodity, to changes in one of the variables on which demand depends.
(b) The percentage change in quantity demanded, divided by the percentage change in one of the factors on which demand depends.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 123. Elasticity of Demand is attributed to —

(a) Changes in Prices (b) Changes in Incomes
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 124. Elasticity of Demand is measured in case of —
(a) Changes in Price of the Commodity
(b) Changes in Incomes of the Consumers
(c) Changes in Prices of related commodities
(d) All of the above

Q 125. Which of the following statements regarding Elasticity of Demand is true?
(a) Elasticity can be positive or negative
(b) Elasticity always has a negative value
(c) Elasticity always has a positive value
(d) Elasticity can never be zero

Q 126. Which of the following statements is true with regard to the elasticity of demand?
(a) The elasticity of demand remains same, both in short run and in long run
(b) Demand is more elastic in the short run than in long run
(c) Demand is more inelastic in the long run than in short run
(d) Demand is more elastic in the long run than in short run

Q 127. Price Elasticity of Demand is defined as —
(e) Change in quantity demanded ÷ Change in price
(a) Proportionate change in quantity demanded ÷ Change in Price
(b) Change in quantity demanded ÷ Proportionate change in Price
(c) Proportionate change in quantity demanded Proportionate change in price

Q 128. Price Elasticity of Demand for a product is —
(a) Change in the quantity demanded of the product when price increases by 30%
(b) Percentage increase in the quantity demanded of the product when the price falls by 1%
(c) Increase in the demand for the product when its price falls by 10%
(d) Decrease in the quantity demanded of the product when its price falls by 1%

Q 129. Usually, the demand for Necessities is —
(a) Highly Elastic (b) Highly Inelastic
(c) Slightly Elastic (d) Slightly Inelastic

Q 130. Demand for which of the following products is/are relatively inelastic?
(a) Water (b) Electricity
(c) Movie Tickets (d) Both (a) and (b)

Q 131. Which of the following products has highly inelastic demand?
(a) Jewellery (b) Imported sofa set
(c) Sa l t (d) Sports car

Q 132. Amongst the following which item has highest Price Elasticity?
(a) Sal t (b) Petrol
(c) Indian Oil's Petrol (d) Rice

Q 133. Goods which have more close or perfect substitutes are
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 134. Goods which have fewer substitutes are —
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 135. Goods having higher proportion of the Consumers' spending are —
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 136. Goods having lower share in the Consumers' Budget are —
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 137. Luxury Goods are considered Necessity Goods.
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 138. Goods which can be put to multiple uses are —
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 139. Goods which have a specified and particular use are

(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 140. Demand for electricity is elastic because —
(a) It is very expensive.
(b) It has a number of close substitutes.
(c) It has alternative uses.
(d) None of the above.

Q 141. Goods in respect of which the Consumers have more time to adjust or modify their consumption pattern are —
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 142. Goods in respect of which the use or consumption can be postponed are —
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 143. Goods which are required for immediate or urgent consumption are —
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 144. Medicines have less elastic demand since —
(a) They have alternative uses
(b) They have to be used immediately, and their purchase and use cannot be delayed
(c) There are fewer substitutes available
(d) All of the above

Q 145. Goods which are subject to Consumer Habits, e.g. Cigarette, Liquor, et(c) are —
(a) Less Elastic (b) Unit Elastic
(c) More Elastic (d) Zero Elastic

Q 146. If the demand for a commodity is ..., entire burden of indirect tax will fall on the consumer.
(a) Relatively inelastic (b) Perfectly inelastic
(c) Perfectly elastic (d) Relatively elastic

Q 147. If a product has perfectly inelastic demand, and there is a change in its price, which of the following is correct?
(a) Percent Change in Quantity demanded will be greater than Percent Change in Price
(b) Percent Change in Quantity demanded will be lesser than Percent Change in Price
(c) Percent Change in Quantity demanded will be equal to Percent Change in Price
(d) Quantity demanded will not change at all

LESS ELASTIC

Q 148. Identify the factor which generally keeps the Price—Elasticity of Demand for a product low.
(a) Variety of Uses for that product
(b) Its Low Price
(c) Close Substitutes for that product
(d) High proportion of the Consumer's Income spent on it

Q.149 Identify the coefficient of price—elasticity of demand when the percentage increase in the quantity demanded of a product is smaller than the percentage fall in its price.
(a) Equal to one (b) Greater than one
(c) Smaller than one (d) Zero

Q 150. Price Elasticity of Demand for addictive products like cigarettes and alcohol would be
—
(a) Greater than 1 (b) Less than 1
(c) Infinity (d) One

Q 151. If Electricity Demand is inelastic, and electric rates increase, which of the following is likely to occur?
(a) Quantity demanded will fall by a relatively large amount
(b) Quantity demanded will fall by a relatively small amount
(c) Quantity demanded will rise in the short run, but fall in the long run
(d) Quantity demanded will fall in the short run, but rise in the long run

Q 152. If the demand for the good is less elastic, the Demand Curve will be —

(a) Horizontal Line
(b) Vertical Line
(c) Downward Sloping to the right, flatter
(d) Downward Sloping to the right, steeper

Q 153. If a product has less elastic demand, and there is a change in its price, which of the following is correct?
(a) Percent Change in Quantity demanded will be greater than Percent Change in Price
(b) Percent Change in Quantity demanded will be lesser than Percent Change in Price
(c) Percent Change in Quantity demanded will be equal to Percent Change in Price
(d) Quantity demanded will not change at all

UNIT ELASTIC

Q 154. If the demand for a good is unit elastic, the value of the elasticity of demand would be —
(a) 0 (b) 1
(c) In finity (d) Less than 0

Q 155. If the demand for the good is unit elastic, and E is the measure of Elasticity, which of the following is true?
(a) $E = 0$ (b) $0 < E < 1$
(c) $E = 1$ (d) $E > 1$

Q 156. If the demand for the good is unit elastic, the Demand Curve will be —
(a) 45 degree Straight Line, sloping downward to the right
(b) Rectangular Hyperbola
(c) Equilateral Hyperbola
(d) Any of the above

MORE ELASTIC

Q 157. Identify the coefficient of price—elasticity of demand when the percentage increase in the quantity demanded of a product is more than the percentage fall in its price.
(a)Equal to one
(b) Greater than one
(c) Smaller than one
(d) Zero

Q 158. When quantity demanded changes by larger percentage than Price, Elasticity is termed as —
(a) Inelastic (b) Perfectly elastic
(c) Elastic (d) Perfectly inelastic

Q 159. Suppose the demand for meals at a medium—priced restaurant is elasti(c) If the management of the restaurant is considering raising prices, it can expect a relatively —
(a) Large fall in quantity demanded
(b) Large fall in demand
(c) Small fall in quantity demanded
(d) Small fall in demand

Q 160. If the demand for the good is more elastic, the Demand Curve will be —
(a) Horizontal Line
(b) Vertical Line
(c) Downward Sloping to the right, flatter
(d) Downward Sloping to the right, steeper

PERFECTLY ELASTIC

Q 161. What would be the value of Elasticity of Demand, if the demand for the good is perfectly elastic?
(a) 0 (b) 1
(c) Infinity (d) Less than 0

Q 162. If the demand for the good is perfectly elastic, the Demand Curve will be —
(a) Horizontal Line
(b) Vertical Line
(c) Rectangular Hyperbola
(d) Downward Sloping to the right

Q 163. What is the mean by price elasticity of demand greater than 1-
(a) % change in quantity demanded is less than % change in price.
(b) % change in quantity demanded is more than %change in price,
(c) No change in quantity and price
(d) None of these

DETERMINANTS OF PRICE ELASTICITY

Q 164. Price Elasticity of Demand would be higher for those products which have —

(a) A larger number of Substitutes

(b) Fewer Substitutes

(c) No Substitutes

(d) Fewer Complementary Goods

Q 165. The Elasticity of Substitution between two Perfect Substitutes is —

(a) Zero (b) Greater than zero

(c) Less than infinity (d) Infinite

Q 166. Which is correct about price elasticity of demand?

(a) It is several degrees and natures

(b) It is unaffected due to change in price of other goods

(c) It is immeasurable concept

(d) It is due to direction of change in price

PROPORTXONATE METHOD

Q.167 If the demand for a product reduces by 5% as a result of an increase in the price by 25%. What is the Price Elasticity of Demand?

(a) 0 . 2 (b) – 0.5

(c) -0.25 (d) 0.2

Q 168. If Price of Coffee decreases from ₹ 5 to ₹ 4.50, and as a result the Consumer's Demand for Coffee increase from 60 grams to 75 grams, the absolute Price Elasticity of Demand of Coffee is -

(a) 1.5 (b) 3.0

(c) 2.0 (d) 2.5

Q 169 Suppose the price of movies seen at a Theatre rises from ₹ 120 to ₹ 200 per person. The Theatre Manager observes that the rise in price causes attendance at a given movie to fall from 300 persons to 200 persons. What is the Price Elasticity of Demand for Movies?

(a) 0.5 (b) 0.8

(c) 1.0 (d) 1.2

Q 170. Suppose a Department Store has a sale on its silverware. If the Price of a plate- setting is reduced from ₹ 300 to ₹ 200 and the quantity demaAed increases from 3,000 plate settings to 5,000 plate-settings, what is the Price Elasticity of Demand for that item?

(a) 0.8 (b) 2.0

(c) 1.25 (d) 1.5

Q 171. What is the new quantity demanded when Price Elasticity is 1 and price changes from ₹ 15 to ₹ 10 and the original quantity demanded was 10 units?

(a) 15 units (b) 20 units

(c) 8 units (d) 12 units

Q 172. What will be the price elasticity if original price is ₹5, original quantity is 8 units and changed price is ₹6 changed quantity is 4 units?

(a) 2.5 (b) 2.0

(c) 1.5 (d) 1.0

Q 173. The original price of commodity is 2500 and quantity demanded is 20 kgs. If price rises to₹ 750 and quantity demanded reduce to 15 kgs, price elasticity o f demand is

(a) 0.25 (b) 0.50

(c) 1.00 (d) 1.50

POINT ELASTICITY

Q 174. The Elasticity at a given point on a Demand Curve is known as -

(a) Point Elasticity (b) Income Elasticity

(c) Arc Elasticity (d) Cross Elasticity

Q 175. Point Elasticity of Demand is calculated as -

(a) Upper Segment + Lower Segment

(b) Lower Segment ÷ Upper Segment

(c) Either (a) or (b)

(d) Neither (a) nor (b)

Q 176. Point Elasticity is useful for which of the following situations -

(a) The bookstore is considering doubling the price of notebooks

(b) A restaurant is considering lowering the price of its most expensive dishes by 50%

(c) An automobile producer is interested in determining the response of consumers to the price of cars being lowered by Z 50,000

(d) None of the above

Q 177. Which of the following statements regarding Elasticity of Demand is true?

(a) Elasticity of demand decreases as one goes down a Straight Line Demand Curve

(b) Elasticity of Demand increases as one goes down a Straight Line Demand Curve

(c) Elasticity of Demand is constant throughout the Straight Line Demand Curve

(d) None of the above

Q 178. If a point on a Demand Curve of any Product lies on X Axis, then Price Elasticity of Demand of that commodity at that point will be -

(a) Infinite

(b) More than zero (c) Less than zero (d) Zero

Q 179. If a point on a Demand Curve of any Product lies on Y Axis, then Price Elasticity of Demand of that commodity at that point will be -

(a) Infinite

(b) More than zero (c) Less than zero (d) Zero

Q 180. What is the elasticity between midpoint & upper extreme point of a straight line continuous demand curve?

(a) Infinite (b) Ze ro

(c) >1 (d) <1

ARC ELASTICITY

Q 181. At a price of ₹ 300 per month, there are 30,000 subscribers to Cable TV in a Small Town. If the Cable Company raises its price to Z 400 per month, the number of subscribers will fall to 20,000. Using the mid-point method for calculating the elasticity, what is the Price Elasticity of Demand for Cable TV?

(a) 1.4 (b) 0 . 66

(c) 0 . 75 (d) 2.0

Q 182. 1f the quantity of blankets demanded increases from 4,600 to 5,700 in response to a decrease in their price from Z 220 to Z 190, the Price Elasticity of Demand for Blankets using Arc Method is —

(a) 0.69 (b) 1.0

(c) 1.46 (d) 2.66

Q 183. What is the Original Price of a Product when Price Elasticity is 0.71 and Demand changes from 20 units to 15 units and the new price is ₹ 10? (Use Arc Method for computation)

(a) ₹15 (b) ₹18

(c) ₹ 20 (d) ₹ 8

TOTAL OUTLAY I REVENUE METHOD

Q 184. Under Total Outlay Method, if as a result of the decrease in price of a product, the total expenditure on the product rises, we say that Price Elasticity of Demand is —

(a) Equal to unity (b) Greater than unity

(c) Less than unity (d) Zero

Q 185. Under Total Outlay Method, if Price and Consumer's Total Expenditure on the product move in opposite directions, then, Price Elasticity of Demand is —

(a) Equal to unity (b) Greater than unity

(c) Less than unity (d) Zero

Q 186. The demand for a product is elastic, an increase in its price will cause the Total Expenditure of the Consumers to —

(a) Remain the same (b) Increase

(c) Decrease (d) Any of these

Q 187. Under Total Outlay Method, if as a result of the decrease in price of a product, the total expenditure on the product decreases, we say that Price Elasticity of Demand is —

(a) Equal to unity (b) Greater than unity

(c) Less than unity (d) Zero

Q 188. If the demand for a product is inelastic, an decrease in its price will cause the Total Expenditure of the Consumers to —

(a) Remain the same (b) Increase

(c) Decrease (d) Any of these

Q 189. *Total Expenditure of a Consumer increases if —*

(i) Demand is elastic and price rises

(ii) Demand is elastic and price falls

(iii) Demand is inelastic and price rises

(iv) Demand is inelastic and price falls

(a) Only (ii) (b) Only (iii)

(c) Both (i) and (iii) (d) Both (ii) and (iii)

Q 190. *Given the following four possibilities, which one results in an increase in Total Consumer Expenditure?*

(a) Demand is unitary elastic and price falls

(b) Demand is elastic and price rises

(c) Demand is inelastic and price falls

(d) Demand is inelastic and price rises

Q 191. *Due to change in price of the commodity, the Total Expenditure remains the same as before, then Elasticity under Total Outlay Method is —*

(a) Equal to unity (b) Greater than unity

(c) Less than unity (d) Zero

Q 192. *When Increase in prices is exactly balanced by a proportionate reduction in the purchase quantity, then Elasticity under Total Outlay Method is —*

(a) Equal to unity (b) Greater than unity

(c) Less than unity (d) Z e r o

Q 193. *An increase in price will result in an increase in Total Revenue if —*

(a) Percentage Change in quantity demanded is less than the Percentage Change in Price

(b) Percentage Change in quantity demanded is more than Percentage Change in price

(c) Demand is elastic

(d) 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

Q 194. *Which of the following statements regarding Elasticity of Demand is true?*

(a) If the demand for the product is inelastic, an increase in price will have a positive effect on the total revenue of the Firm

(b) If the demand for the product is elastic, an increase in price will have a positive effect on the total revenue of the Firm

(c) If the demand for the product is inelastic, an increase in price will have a negative effect on the total revenue of the Firm

(d) If the demand for the product is inelastic, a decrease in price will have a positive effect on the total revenue of the Firm

Q 195. *If a good has price elasticity greater than one then —*

(a) Demand is unit elastic and a change in price does not affect sellers' revenue.

(b) Demand is elastic and a change in price causes Sellers' Revenue to change in the opposite direction.

(c) Demand is inelastic and a change in price causes Sellers' Revenue to change in the same direction.

(d) None of the above is correct.

Q 196. *Ceteris paribus, what would be the impact on foreign exchange earnings for a given falling export prices, if the demand for the country's exports is inelastic?*

(a) Foreign Exchange Earnings decrease

(b) Foreign Exchange Earnings increase

(c) No effect on Foreign Exchange Earnings

(d) Foreign Exchange Earnings increase for a brief period and decrease drastically later on

Q 197. *If the Railways are making losses on passenger traffic, they should lower their fares. The suggested remedy would only work if the demand for Rail Travel had a price elasticity of —*

(a) Z e r o

(b) Greater than zero but less than one.

(c) One

(d) Greater than one

INCOME ELASTICITY

Q 198. *Income Elasticity of Demand is defined as the responsiveness of —*

(a) Price to a change in quantity demanded

(b) Quantity demanded to a Change in Price

(c) Price to a Change in Income

(d) Quantity demanded to a change in income

Q 199. *Positive Income Elasticity implies that as income rises, demand for the commodity —*

(a) Rises (b) Falls
(c) Remains unchanged (d) Becomes zero

Q 200. If Income—Elasticity is greater than zero, then the product is —
(a) Superior (b) Norma l
(c) Infe rior (d) Both (a) & (b)

Q 201. ... have a positive Income Elasticity of Deman(d)
(a) Complementary Goods
(b) Substitute Goods
(c) Normal Goods
(d) Inferior Goods

Q 202. For what type of goods does demand fall with rise in income levels of households?
(a) Inferior Goods (b) Substitutes
(c) Luxuries (d) Necessities

Q 203. Negative Income Elasticity implies that as income rises, demand for the commodity —
(a) Rises (b) F a l l s
(c) Remains unchanged (d) Becomes zero

Q 204. What type of goods does a consumer eventually stop buying, when his income rises?
(a) Goods with Positive Income Elasticity
(b) Goods with Negative Income Elasticity
(c) Goods with Zero Income Elasticity
(d) No relationship exists between the type of the goods bought and rise in income

Q 205. In Demand—Supply Analysis, if the income of the Consumer increases, the Demand Curve for an inferior good —
(a) Shifts upward to the right
(b) Shifts downward to the left
(c) Shifts upward to the left
(d) Shifts downward to the right

Q 206. Have a negative Income Elasticity of Deman(d)
(a) Luxury Goods (b) Necessities
(c) Normal Goods (d) Inferior Goods

Q 207. If quantity demanded does not change as Income changes, then Income Elasticity of Demand is —
(a) Below 1 (b) Above 1
(c) Zero (d) Between —1 and 0

Q 208. For goods increase in income leads to increase in deman (d)
(a) Abnormal (b) Normal
(c) Inferior (d) Superior

Q 209. If Income Elasticity > 1, it means that proportion of Income spent on goods , as income of the Consumers increases.
(a) Increases (b) Decreases
(c) Remains constant (d) Nothing can be said

Q 210. For a product to be called income elastic, its Income Elasticity has to be —
(a) Below1 (b) Above1
(c) Zero (d) Between—1 and 0

Q 211. Services like Air Travel and Movies have an income elasticity of —
(a) More than1 (b) 0
(c) Less than 1 (d) Between 0 and 1

Q 212. What would be the value of Income Elasticity of demand for the meals in a costly restaurant?
(a) Lesser than one (b) Between 0 and 1
(c) 1 (d) More than1

Q 213. Goods having Income Elasticity > 1 are considered as -
(a) Luxury Goods (b) Necessities
(c) Normal Goods (d) Inferior Goods

Q 214. The Income of a Household rises by 20%, the demand for Computer rises by 25%, this means Computer (in Economics) is a/an
(a) Inferior Good (b) Luxury Good
(c) Necessity (d) Nothing can be said

Q 215. If Income Elasticity for the household for Product A is 2 then A is -
(a) Necessity Item (b) Inferior Goods
(c) Luxurious Item (d) Comfortable Item

Q .216 If Income Elasticity = 1, it means that proportion of Income spent on goods , as income of the Consumers increases.

(a) Increase (b) Decreases
(c) Remains constant (d) Nothing can be said

Q 217. If Consumers always spend 15% of their income on food, then the Income Elasticity of Demand for Food is

(a) 1 .50. (b) 1 .15.
(c) 1 . 00 (d) 0 .15.

Q 218. Meals in a costly restaurant Necessity is defined as a good having -

(a) Positive Income Elasticity of Demand
(b) Negative Income Elasticity of Demand
(c) Income Elasticity of Demand less than 1.
(d) Price Elasticity of Demand less than 1.

Q 219 Goods having Income Elasticity < 1 are considered as-

(a) Luxury Goods (b) Necessities
(c) Normal Goods (d) Inferior Goods

Q 220. Which of the following is not a determinant of the Advertising Elasticity of Demand?

(a) Effect of Time
(b) Stages of Product
(c) Advertising by Competitors
(d) Income Level of the Consumers

Q 221. If income increases by 10% and demand increases by 5%, then income elasticity of demand is:

(a) + 0 . 5 (b) - 0 . 5
(c) + 0.05 (d) - 0 . 05

Q 222. Concerned about the poor state of the economy, a Car Dealer estimates that if income decreases by 4%, Car Sales will fall from 352 to 335. Consequently, the Income Elasticity of Demand for cars is approximately -

(a) - 1 . 2 (b) 0 . 01
(c) 0.4 (d) 1.2

Q 223. Income of a household increases by 10%, and the demand for Wheat rises by 5%. This means that Wheat is an example of —

(a) Normal Goods (b) Luxurious Goods
(c) Inferior Goods (d) Economic Goods

Q 224. Income of a household increases by 10%, and the demand for TV rises by 20%. This means that TV is an example of —

(a) Normal Goods (b) Luxurious Goods
(c) Inferior Goods (d) Economic Goods

Q 225. of a household increases by 5%, and the demand for Bajra falls by 2%. In this case, Bajra is an example of —

(a) Normal Goods (b) Luxurious Goods
(c) Inferior Goods (d) Economic Goods

Income

CROSS ELASTICITY

Q 226. In order to assess the effect of a change in price of one product on the demand for other products, which type of elasticity is often used?

(a) Cross Elasticity (b) Income Elasticity
(c) Price Elasticity (d) Supply Elasticity

Q 227. Cross Elasticity measures the responsiveness of quantity demanded of a commodity to —

(a) Changes in Price of that Commodity
(b) Changes in Price of other Commodities
(c) Changes in Income Levels of Buyers
(d) All of the above

Q 228. In measuring Cross Elasticity, is / are considere(d)

(a) Only one product (b) Two products
(c) Many products (d) No products

Q 229. Which of the following statements regarding Cross Elasticity is true?

(a) It is always negative
(b) It is always positive
(c) It can be either positive or negative
(d) It always lies between 0 and 1

Q 230. If Goods X and Y are complementary, their Cross Elasticity is —

(a) Infinity
(b) Greater than zero but less than infinity
(c) Zero
(d) Negative

Q 231. What will be the Slope of Demand Curve when it shows the Cross Elasticity between two Complementary Goods?

(a) Negative (b) Positive

(c) Horizontal (d) None of these

Q 232. Cross Elasticity between Tea and Sugar is —

(a) Less than 0

(b) Greater than 1

(c) Zero

(d) Greater than 0, but less than 1

Q 233. Goods having negative Cross Elasticity are —

(a) Mostly complementary goods

(b) Always complementary goods

(c) Mostly substitute goods

(d) Always substitute goods

Q 234. Negative Cross Elasticity always implies that the goods are complementary in nature. This statement is —{Omit this question}

(a) True (b) False

(c) Partially True (d) Nothing can be said

Q 235. Goods having zero Cross Elasticity are —

(a) Complementary goods

(b) Unrelated goods

(c) Substitute goods

(d) All of the above

Q 236. Cross Elasticity of Demand between Tea and Coffee is

(a) Positive (b) Negative

(c) Zero (d) Infinity

Q 237. If the co—efficient of Cross Elasticity of Demand of X for Y is 3, it means that X and Y are —

(a) Complementary Goods

(b) Substitute Goods

(c) Inferior Goods

(d) Normal Goods

Q 238. When Cola Companies Coke and Pepsi, introduced Colas in mini bottles at a low price, the demand for Tea and Coffee is small tea stalls declined drastically. The Cross Elasticity between the Colas and Tea / Coffee is —

(a) Negative (b) Positive

(c) Zero (d) Infinite

Q 239. The cross elasticity of demand between two perfect substitutes will be- *

(a) Z e r o (b) I nf i ni ty

(c) Very high (d) Very low

Q 240. Goods having positive Cross Elasticity are —

(a) Mostly complementary goods

(b) Always complementary goods

(c) Mostly substitute goods

(d) Always substitute goods

Q 241. Positive Cross Elasticity always implies that the goods are substitute goods. This statement is —

(a) Tru e (b) False

(c) Partially True (d) Nothing can be said

Q 242. If Cross Elasticity of Demand is Infinity, it means that the goods are —

(a) Perfect Complementary Goods

(b) Perfect Substitute Goods

(c) Inferior Goods

(d) Normal Goods

Q 243. If the quantity demanded of Tea increases by 5% when the price of Coffee increases by 20%, the Cross Elasticity of demand between Tea and Coffee is —

(a) —0.25 (b) 0 . 25

(c) 4 (d) 4

Q 244. The Cross Elasticity of monthly demand for ink pen, when the price of gel pen increases by 25% and demand for ink pen increases by 50% is equal to —

(a) + 2.00. (b) —2.00.

(c) 2 . 09 . (d) + 2.09.

Q 245. Cross Elasticity of Demand for Gel Pen when the Price of Refills increases by 20% and demand for Gel Pens falls by 30% is equal to —

(a) 0 . 71 (b) + 0.25.

(c) 0 . 19 . (d) -1.5

Q 246. If the quantity demanded of Product X increases from 8 to 12 units in response to an increase in the price of Product Y from Z 23 to Z 27, the Cross Elasticity of

Demand for X with respect to Price of Y is approximately —

(a) 0.35 and X and Y are Complements.
(b) 0.35 and X and Y are Substitutes.
(c) 2.5 and X and Y are Complements.
(d) 2.5 and X and Y are Substitutes.

Q 247. Use the following data for the next 8 questions.
A Grocery Shop used to sell fresh milk at Z 20 per litre, at which price 400 litres of milk were sold per month. After some time, the price was raised to Z 30 per litre. Following are the consequences:

- Only 200 litres of milk was sold every month.
- The number of boxes of cereal customers bought went down from 200 to 140.
- The number of packets of powdered milk customers bought went up from 90 to 220 per month.

Q 248 The Price Elasticity of Demand when fresh milk's price increases from Z 20 per litre to Z 30 per litre is equal to

(a) 2.5 (b) 1.0
(c) 1 . 66 (d) 2 . 66

Q 249. What can be said about the Price Elasticity of Demand for Fresh Milk?

(a) It is perfectly elastic
(b) It is elastic
(c) It is perfectly inelastic
(d) It is inelastic

Q 250. The Cross Elasticity of Demand for Cereals when the price of Fresh Milk increases from ₹ 20 to Z 30 is equal to

(a) -0.6 (b) +0.6
(c) -0.19. (d) +0.38.

Q 251. What can be said about Fresh Milk & Cereals?

(a) They are Complementary Goods
(b) They are Substitute Goods
(c) They are Unrelated Goods
(d) Nothing can be said

Q 252. The Cross Elasticity of Demand for Powdered Milk, when the price of Fresh Milk increases from Z 20 to Z 30 per litre is equal to -

(a) +1.05. (b) -L05.
(c) -2.89. (d) +2.89

Q 253. What can be said about Fresh Milk and Powdered Milk?

(a) They are Complementary Goods
(b) They are Substitute Goods
(c) They are Unrelated Goods
(d) Nothing can be said

Q 254. If Income of the Consumers increases by 50% and the quantity of Fresh Milk demanded increases by 30%. What is Income Elasticity of Demand for Fresh Milk?

(a) 0.5 (b) 0.6
(c) 1.25 (d) 1.50

Q 255. We can say that Fresh Milk in economics sense is an example of -

(a) Luxury Goods (b) Inferior Goods
(c) Normal Goods (d) Nothing can be sai(d)

Q 256. Advertisement Elasticity is also Know as:-

(a) Marketing Elasticity
(b) Promotional Elasticity
(c) Commercial Elasticity
(d) All of the above

Q 257. The responsiveness of a good's demand to changes in the Firm's spending on advertising is called —

(a)) Demand elasticity
(b)) Supply elasticity
(c)) Advertisement elasticity
(d)) None of the above

Q 258. Advertisement Elasticity is the percentage change in

(a) Supply that occurs for every 1% change in Advertising Expenditure.
(b) Demand that occurs for every 1% change in Advertising Expenditure.
(c) Advertisement expense that occurs for every 1% change in Demand
(d) None of the above

Q 259. Advertising Elasticity is generally

(a) Positive (b) Negative
(c) Z e r o (d) None of the above

Q 260. Which of the following statements is correct?

(a) Higher the value of Advertising Elasticity, greater will be the responsiveness of demand to change in advertisement.

(b) Lower the value of Advertising Elasticity, greater will be the responsiveness of demand to change in advertisement.

(c) Higher the value of Advertising Elasticity, lesser will be the responsiveness of demand to change in advertisement.

(d) None of the above

Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n
1	B	52	A	103	D	154	B	205	B	256	B
2	D	53	D	104	A	155	C	206	B	257	C
3	D	54	B	105	C	156	D	207	D	258	B
4	A	55	A	106	D	157	B	208	C	259	A
5	D	56	B	107	D	158	C	209	B	260	A
6	D	57	B	108	C	159	A	210	A		
7	C	58	B	109	D	160	C	211	B		
8	B	59	A	110	B	161	C	212	A		
9	C	60	C	111	D	162	A	213	D		
10	A	61	C	112	C	163	B	214	A		
11	A	62	B	113	A	164	A	215	B		
12	C	63	C	114	B	165	D	216	C		
13	C	64	C	115	A	166	A	217	C		
14	D	65	B	116	D	167	A	218	C		
15	B	66	A	117	B	168	D	219			
16	C	67	B	118	B	169		220	C		
17	A	68	C	119	D	170	A	221	D		
18	B	69	A	120	A	171	B	222	A		
19	B	70	B	121	C	172	A	223	D		
20	C	71	C	122	C	173	A	224	A		
21	B	72	B	123	C	174	B	225	B		
22	B	73	A	124	D	175	A	226	C		
23	C	74	A	125	A	176	B	227	A		
24	A	75	B	126	D	177	C	228	B		
25	D	76	D	127	D	178	A	229	B		
26	B	77	C	128	B	179	D	230	C		
27	C	78	B	129	B	180	A	231	D		
28	B	79	A	130	D	181	C	232	A		
29	C	80	C	131	C	182	A	233	A		
30	B	81	C	132	C	183	C	234	A		
31	B	82	C	133	C	184	A	235	B		
32	C	83	C	134	A	185	B	236	B		
33	C	84	B	135	C	186	B	237	A		
34	D	85	C	136	A	187	C	238	B		
35	C	86	C	137	C	188	C	239	B		
36	A	87	C	138	C	189	C	240	B		
37	B	88	B	139	A	190	D	241	D		
38	D	89	B	140	C	191	D	242	A		
39	D	90	C	141	C	192	A	243	B		
40	C	91	A	142	C	193	A	244	B		
41	A	92	A	143	A	194	A	245	A		
42	C	93	A	144	B	195	A	246	D		
43	B	94	B	145	A	196	B	247	D		
44	D	95	D	146	B	197	A	248	B		
45	B	96	A	147	D	198	D	249	B		
46	B	97	C	148	B	199	D	250	A		
47	C	98	A	149	C	200	A	251	A		
48	A	99	B	150	B	201	D	252	D		
49	B	100	A	151	B	202	C	253	B		
50	C	101	D	152	D	203	A	254	B		
51	A	102	C	153	B	204	B	255	C		

Chapter – 2 part C- Theory of Supply

Supply Basics

Q 1. Supply can be referred as —

(a) Those goods which Firms offers for sale
(b) Amount of goods, Firms sells in the market
(c) Amount of goods all people want
(d) None of the above

Q 2. The Supply of a product refers to —

(a) Actual production of the product
(b) Total existing stock of the product
(c) Stock available for sale
(d) Amount of the product offered for sale at a particular price per unit of time

Q 3. Supply of a Commodity is a —

(a) Stock Concept
(b) Flow Concept
(c) Both Stock and Flow Concept.
(d) None of these.

Q 4. Supply refers to the quantity of goods or services, that are willing and able to offer to the market at various prices during a period of time.

(a) Producers (b) Consumers
(c) Economists (d) Accountants

Q 5. Supply Quantity is the same as Sales Quantity. This statement is —

(a) True (b) False
(c) Partially True (d) None of the above

Q 6. Supply refers to what Firms offer for sale, and not necessarily to what they succeed in selling. This statement is —

(a) True (b) False
(c) Partially True (d) None of the above

Q 7. To constitute Supply, the Producing Firms must have

(a) Ability, i.e. productive capacity
(b) Willingness, i.e. ready to supply
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 8. Supply refers to the by Producing Firms.

(a) Quantities offered for sale
(b) Prices offered
(c) Sales achieved
(d) Profits earned

Q 9. Period in which supply cannot be increased is called

(a) Market Period (b) Short Run
(c) Long Run (d) None of these

Q 10. ______is the total volume of the commodity which can be brought into the market for sale at a short notice.

(a) Demand (b) Supply
(c) Stock (d) Sales

Q 11. ______refers to the quantity which is actually brought in the market.

(a) Demand (b) Supply
(c) Stock (d) Sales

Q 12. Supply is different from Stock. This statement is

(a) True (b) False
(c) Partially True (d) None of the above

Q 13. Stock is potential supply.

(a) True (b) False
(c) Partially True (d) None of the above

Q 14. Stock refers to quantity into the market, whereas Supply refers to quantity into the market.

(a) Actually brought, actually brought
(b) Can be brought, actually brought
(c) Can be brought, actually brought
(d) Can be brought, can be brought

Q 15. The meaning of time element in economics is

(a) Calendar time
(b) Clock time
(c) Operational time which supply adjusts with the market demand
(d) None of these

DETERMINANTS OF SUPPLY

Q 16. Generally, higher the prices of products, higher the

(a) Profits of Producing Firms
(b) Satisfaction Level of Consumers
(c) Tax Rates
(d) All of the above

Q 17. Producing Firms are guided by —

(a) Service Motive (b) Profit Motive
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 18. Other things being equal, if the price of the commodity is higher, quantities thereof will be supplied to the market.

(a) Equal (b) Lower
(c) Greater (d) Zero

Q 19. Supply of a Product decreases when the prices of other related goods increase. This is because

(a) Customers start demanding more of other goods
(b) Those goods become relatively more profitable to the Firm to produce and sell
(c) Customers preferences and tastes will change
(d) Producing Firms' profit motive changes

Q 20. If there is an decrease in the Prices of Factors of Production, Cost of Production of that product will —

(a) Increase (b) Decrease
(c) Remain Constant (d) Become Zero

Q 21. Other things being equal, if the Cost of Production of a commodity is higher, quantities thereof will be supplied to the market.

(a) Equal (b) Lower
(c) Greater (d) Zero

Q 22. Inventions and Innovations lead to —

(a) Lower Cost of Production in existing products
(b) Production of more or better goods
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 23. Inventions and Innovations lead to —

(a) Increase in supply quantity of new products
(b) Reduction in the supply quantity of products that are displaced
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 24. Other things being equal, the supply quantity of a product is related to its price.

(a) Directly (b) Inversely
(c) Proportionally (d) Not at all

Q 25. Other things being equal, the supply quantity of a product is related to price of related goods.

(a) Directly (b) Inversely
(c) Proportionally (d) Not at all

Q 26. Other things being equal, the supply quantity of a product is related to the Cost of Production of that product.

(a) Directly (b) Inversely
(c) Proportionally (d) Not at all

Q 27. Generally, if there are incentives like Subsidies which reduce the cost of production, the supply quantity will —

(a) Increase (b) Decrease
(c) Remain Constant (d) Become Zero

Q 28. In case of failure of rains, floods, fires, etc. the supply of agricultural commodities will —

(a) Increase (b) Decrease
(c) Remain Constant (d) Become Zero

LAW OF SUPPLY AND SUPPLY CURVE

Q 29. Which of the following is the determinant in the Law of Supply?

(a) Technology (b) Price of related goods
(c) Price of the product (d) None of these

Q 30. As per Law of Supply, other things being equal, if the Price of a Commodity increases, its Supply Quantity will

(a) Increase (b) Decrease
(c) Remain Constant (d) Become Zero

Q 31. Generally, the Supply Curve —
(a) Slopes downwards from left to right
(b) Slopes upwards from right to left
(c) Slopes upwards from left to right
(d) Nothing can be sai

Q 32. Generally, the Supply Curve —
(a) Positively sloped
(b) Negatively sloped
(c) Zero—sloped
(d) Nothing can be said

Q 33. The Market Supply Curve is a lateral summation (totalling) of Individual Supply Curves of all Producing Firms. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 34. What would be the shape of the Supply Curve of the toys, if a Seller offers to sell any number of toys as 100?
(a) Vertical (b) Downward sloping
(c) Horizontal (d) Upward sloping

INCREASE / DECREASE IN QUANTITY SUPPLIED

Q 35. Increase or Decrease in the quantity supplied occurs due to —{Omit this question}
(a) Changes in Price
(b) Changes in Factors other than Price
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 36. While recognizing Increase or Decrease in the quantity supplied, we assume remain constant.
(a) Price
(b) All Factors other than Price
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 37. When there is a movement on the Supply Curve, we are referring to —
(a) Change in Supply
(b) Change in Quantity Supplied
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 38. Increase in quantity supplied, due to changes in price, may also be called —
(a) Contraction of Supply
(b) Expansion of Supply
(c) Decrease in Supply
(d) Increase in Supply

Q 39. Decrease in quantity supplied, due to changes in price, may also be called —
(a) Contraction of Supply
(b) Expansion of Supply
(c) Decrease in Supply
(d) Increase in Supply

Q 40. When more units of the product are supplied at a higher price, it is called —
(a) Contraction of Supply
(b) Increase in Supply
(c) Change in Supply
(d) Expansion of Supply

Q 41. Contraction of Supply is the result of —
(a) Decrease in the number of Producers
(b) Decrease in the price of the product concerned
(c) Increase in the prices of other goods
(d) Decrease in the Outlay of Sellers

INCREASE / DECREASE IN SUPPLY

Q 42. Increase or Decrease in Supply occurs due to —
(a) Changes in Price
(b) Changes in Factors other than Price
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 43. While recognizing Increase or Decrease in the Supply, we assume remain constant.
(a) Price
(b) All Factors other than Price
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 44. Change in Supply means —
(a) A movement on the same Supply Curve
(b) Shift of the Supply Curve
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 45. When higher quantities are supplied, due to changes in factors other than price, it called

(a) Contraction of Supply
(b) Expansion of Supply
(c) Decrease in Supply
(d) Increase in Supply

Q 46. Which of the following factors will not result in the shifting of Supply Curve for Software Packages?

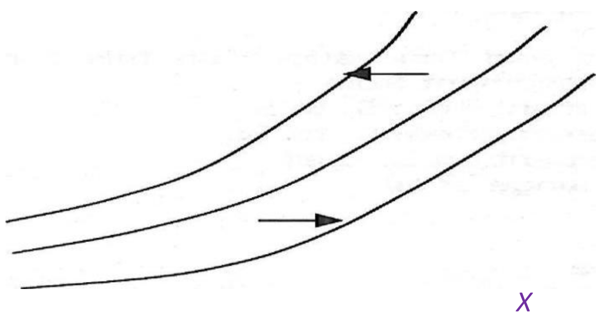
(a) Increase in the wages of computer professionals
(b) Government tariffs on software export and imports
(c) Fall in the prices of software packages
(d) All of the above result in the shifting of the curve

Q 47. An Increase in the Supply of a product is caused by

(a) Improvements in Technology
(b) Fall in the Prices of other goods
(c) Fall in the Prices of Factors of Production
(d) All of these

Q 48. Use the following diagram to answer the next 11 questions.

Y



Si
S0
S2
X

Movement from So to Si is called —

(a) Contraction of Supply
(b) Expansion of Supply
(c) Decrease in Supply
(d) Increase in Supply

Q 49. Movement from So to Si is caused by —

(a) Changes in Price of the product
(b) Changes in Factors other than price
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 50. Movement from So to S2 is called —

(a) Contraction of Supply
(b) Expansion of Supply
(c) Decrease in Supply
(d) Increase in Supply

Q 51. Reduction in the price of Related Commodities will cause a movement from —

(a) Movement from So to Si
(b) Movement from So to S2
(c) Movement on So itself
(d) No change at all

Q 52. Increase in the price of Related Commodities will cause a movement from —

(a) Movement from So to Si
(b) Movement from So to 52
(c) Movement on So itself
(d) No change at all

Q 53. Reduction in Cost of Production of this Commodity will cause a movement from —

(a) Movement from So to Si
(b) Movement from So to S2
(c) Movement on So itself
(d) No change at all

Q 54. Inventions and Innovations on this commodity will cause a movement from —

(a) Movement from 50 to S1
(b) Movement from So to S2
(c) Movement on So itself
(d) No change at all

Elasticity of supply

Q 55. 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

Q 56. Which of the following has the lowest Price Elasticity of Supply?

(a) Luxury Items
(b) Necessities
(c) Perishable Goods
(d) Items that have the least budgetary allocation

Q 57. Given the Market Demand, the burden of specific tax that will be borne by the Consumer (Buyer) depends on the —

(a) Price Elasticity of Supply
(b) Price Elasticity of Demand
(c) Consumer's Ability
(d) Type of the Product

Q 58. Elasticity of Supply can be measured using —

(a) Percentage Change or Proportional Method
(b) Point Elasticity Method
(c) Arc Elasticity Method
(d) All the above

Q 59. Which of the following method is not used for measuring elasticity of supply?

(a) Arc Method (b) Percentage Method
(c) Total outlay Method (d) Point Method

Q 60. If Quantity Supplied increases by 60% for a 500/o increase in Price, Elasticity of Supply is —

(a) —1.2 (b) +1.2
(c) —0.83 (d) +0.83

Q 61. If Price is 15, quantity supplied is 150 units. IfPrice is 25, quantity supplied is 300 units. Compute Price Elasticity of Supply using Arc Method.

(a) —1.09 (b) +1.09
(c) —0.98 (d) +0.98

Q 62. When Supply is perfectly inelastic, Elasticity of Supply is equal to —

(a) +1 (b) 0
(c) —1 (d) Infinity

Q 63. If as a result of a change in price, the quantity supplied of a product remains unchanged, we conclude that —

(a) Elasticity of Supply is perfectly inelastic
(b) Elasticity of Supply is relatively greater elastic
(c) Elasticity of Supply is inelastic
(d) Elasticity of Supply is relatively less elastic

Q 64. Elasticity of Supply is greater than one when

(a) Proportionate change in price is greater than proportionate change in supply
(b) Proportionate change in supply is greater than proportionate change in price
(c) Proportionate change in supply is equal to proportionate change in price.
(d) All of the above.

Q 65. 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.

Q 66. When change in the quantity supplied is proportionate to the change in the price, the product is said to have —

(a) Unitary Elastic Supply
(b) Perfectly Elastic Supply
(c) Relatively Elastic Supply
(d) Perfectly Inelastic Supply

Q 67. Price is fallen by 20% brings above 10% fall in quantity supplied then elasticity of supply is

(a) 2.0 (b) 0.5
(c) 1.0 (d) 1.5

EQUILIBRIUM PRICE WITH DEMAND & SUPPLY

Q 68. Market Forces refer to —

(a) Demand (b) Supply
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 69. Demand & Supply interact in determining—

(a) Price and Output (b) Cost and Revenue
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 70. Equilibrium price is where

(a) Market supply and market demand are equal
(b) Firm supply ad market demand are equal
(c) Firm demand and market supply are equal
(d) None of these

Q 71. Other things being equal, as Demand increases, Equilibrium Price —

(a) decreases (b) increases
(c) does not change at all (d) cannot be commented upon.

Q 72. *Other things being equal, as Demand increases, Quantity at the Equilibrium Price level —*

(a) increases
(b) decreases
(c) does not change at all
(d) cannot be commented upon.

Q 73. *Other things being equal, as Demand increases*

(a) Equilibrium Price and Quantity both increase.
(b) Equilibrium Price and Quantity both decrease.
(c) Equilibrium Price increases and Quantity decreases.
(d) Equilibrium Price decreases and Quantity increases.

Q 74. *Other things being equal, as Demand decreases, Equilibrium Price —*

(a) decreases
(b) increases
(c) does not change at all
(d) cannot be commented upon

Q 75. *Other things being equal, as Demand decreases, Quantity at the Equilibrium Price level —*

(a) increases
(b) decreases
(c) does not change at all
(d) cannot be commented upon.

Q 76. *Other things being equal, as Supply increases, Equilibrium Price —*

(a) Decreases
(b) Increases
(c) Does not change at all
(d) Cannot be commented upon.

Q 77. *Other things being equal, as Supply increases, Quantity at the Equilibrium Price level —*

(a) Increases
(b) Decreases
(c) Does not change at all
(d) Cannot be commented upon.

Q 78. *Other things being equal, as Supply increases —*

(a) Equilibrium Price and Quantity both increase.
(b) Equilibrium Price and Quantity both decrease.
(c) Equilibrium Price increases and Quantity decreases.
(d) Equilibrium Price decreases and Quantity increases.

Q 79. *Other things being equal, as Supply decreases, Equilibrium Price —*

(a) Decreases
(b) Increases
(c) Does not change at all
(d) Cannot be commented upon.

Q 80. *Other things being equal, as Supply decreases Equilibrium Price and Quantity both increase.*

(a) Equilibrium Price and Quantity both decrease.
(b) Equilibrium Price increases and Quantity decreases.
(c) Equilibrium Price decreases and Quantity increases.
(d) None of the above

Q 81. *If increase in demand is greater than the increase in supply, then the Equilibrium Price —*

(a) Decreases
(b) Increases
(c) Does not change at all
(d) Cannot be commented upon.

Q 82. *If increase in demand is greater than the increase in supply, then Quantity at the Equilibrium Price level —*

(a) Increases
(b) Decreases
(c) Does not change at all
(d) Cannot be commented upon.

Q 83. *If increase in demand is greater than the increase in supply, then —*

(a) Equilibrium Price and Quantity both increase.
(b) Equilibrium Price and Quantity both decrease.
(c) Equilibrium Price increases and Quantity decreases.
(d) Equilibrium Price decreases and Quantity increases.

Q 84. *If decrease in demand is greater than the decrease in supply, then —*

(a) Equilibrium Price and Quantity both increase.
(b) Equilibrium Price and Quantity both decrease.
(c) Equilibrium Price increases and Quantity decreases.
(d) Equilibrium Price decreases and Quantity increases.

Q 85. *If increase in demand is equal to the increase in supply, then the Quantity at the Equilibrium Price level —*

(a) Increases
(b) Decreases
(c) Does not change at all
(d) Cannot be commented upon.

Q 86. If increase in demand is equal to the increase in supply, then —
(a) Equilibrium Price and Quantity both increase.
(b) Equilibrium Price and Quantity both decrease.
(c) Equilibrium Price remains the same but Quantity increases.
(d) Equilibrium Price remains the same but Quantity increases.

Q 87. If decrease in demand is less than the decrease in supply, then the Equilibrium Price —
(a) decreases
(b) increases
(c) does not change at all
(d) cannot be commented upon.

Q 88. Which of the following situation does not lead to an increase in Equilibrium Price?
(a) An increase in demand, without a change in supply.
(b) A decrease in supply accompanied by an increase in demand.
(c) A decrease in supply without a change in demand.
(d) An increase in supply accompanied by a decrease in demand.

Q 89. If the Supply of a commodity is perfectly elastic, an increase in Demand will result in —
(a) Decrease in both Price and Quantity at equilibrium
(b) Increase in both Price and Quantity at equilibrium
(c) Increase in Equilibrium Quantity, Equilibrium Price remaining constant
(d) Increase in Equilibrium Price, Equilibrium Quantity remaining constant

Q 90. If the Supply of a commodity is perfectly elastic, a decrease in Demand will result in —
(a) Decrease in both Price and Quantity at equilibrium
(b) Increase in both Price and Quantity at equilibrium
(c) Decrease in Equilibrium Quantity, Equilibrium Price remaining constant
(d) Decrease in Equilibrium Price, Equilibrium Quantity remaining constant

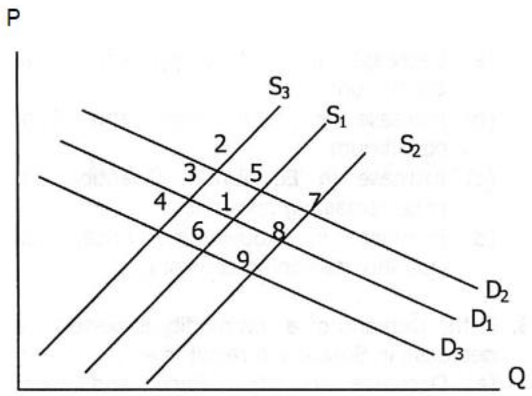
Q 91. If the Supply of a commodity is perfectly inelastic, an increase in Demand will result in —
(a) Decrease in both Price and Quantity at equilibrium
(b) Increase in both Price and Quantity at equilibrium
(c) Increase in Equilibrium Quantity, Equilibrium Price remaining constant
(d) Increase in Equilibrium Price, Equilibrium Quantity remaining constant

Q 92. If the Demand of a commodity is perfectly elastic, an increase in Supply will result in —
(a) Decrease in both Price and Quantity at equilibrium
(b) Increase in both Price and Quantity at equilibrium
(c) Increase in Equilibrium Quantity, Equilibrium Price remaining constant
(d) Increase in Equilibrium Price, Equilibrium Quantity remaining constant

Q 93. If the Demand of a commodity is perfectly elastic, a decrease in Supply will result in —
(a) Decrease in both Price and Quantity at equilibrium
(b) Increase in both Price and Quantity at equilibrium
(c) Decrease in Equilibrium Quantity, Equilibrium Price remaining constant
(d) Decrease in Equilibrium Price, Equilibrium Quantity remaining constant

Q 94. 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) Infinity
(c) One (d) cannot be determined

The Below 7 Questions are based on the demand and supply diagrams below. S1 and D1 are the original demand and supply curves. D2, D3, S2 and S3 are possible new demand and supply curves. Starting from initial equilibrium point (1) what point on the graph is most likely to result from each change?



Q 95. Assume X is a normal good. Holding everything else constant, assume that income rises and the price of a factor of production also increases. What point in Figure 1 is most likely to be the new equilibrium price and quantity?

(a) Point 9 (b) Point 5

(c) Point 3 (d) Point 2.

Q 96. We are analyzing the market for good Z. The price of a complement good, good Y, declines. At the same time, there is a technological advance in the production of good Z. What point Figure 1 is most likely to be the new equilibrium price and quantity?

(a) Point 4. (b) Point 5

(c) Point 8 (d) Point 7

Q 97. Heavy rains in Maharashtra during 2005 and 2006 caused havoc with the rice crop. What point in Figure 1 is most likely to be the new equilibrium price and quantity?

(a) Point 6 (b) Point 3

(c) Point 7 (d) Point 8

Q 98. Assume that consumers expect the prices on new cars to significantly increase next year. What point in Figure is most likely to be the new equilibrium price and quantity?

(a) Point 6 (b) Point 5

(c) Point 3 (d) Point 8

Q 99. What combinations of changes would most likely decrease the equilibrium quantity?

(a) When supply increases and demand decreases.

(b) When demand increases and supply decreases

(c) When supply increases and demand increases.

(d) When demand decreases and supply decreases.

Q 100. When a market is in equilibrium:

(a) No shortages exist.

(b) Quantity demanded equals quantity supplied.

(c) A price is established that clears the market.

(d) All of the above are correct.

Q 101. The market of computers is not in equilibrium, then which of the following statements is definitely true?

(a) The prices of computer will rise

(b) The prices of computer will fall

(c) The prices of computers will change, but not enough information is given to determine the direction of the change.

(d) None of the above

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

Chapter 2- Utility + Demand+ Supply

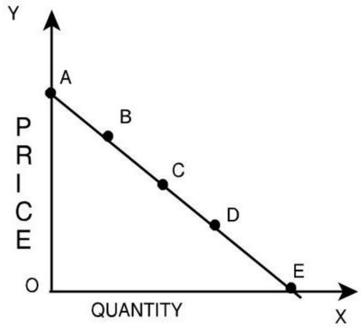
Past Year Exam + Most Repeated Question

Q.1. "High priced goods consumed by status seeking rich people to satisfy their need for conspicuous goods" is:

(a) Veblen effect (b) Bandwagon effect

(c) Snob effect (d) Demonstration effect

Q.2.



(a) elasticity at point A=∞, at B= > 1, at C = 1,at D = < 1 and at E = 0

(b) elasticity at A = 0, at B = < 1 , at C = 1 , at D = > 1 and at E = ∞

(c) elasticity at A = 0 , at B > 1, at C = 1, at D = < 1 and at E = 0

(d) None of these.

Q.3. Cardinal approach is related to:

(a) Indifference curve

(b) Equi marginal utility

(c) Law of diminishing returns

(d) None of these.

Q.4. An Increase in demand can result from:

(a) A decline in the market price

(b) An increase in income

(c) Reduction in the price of substitutes

(d) An increase in the price of complements.

Q.5. Cross elasticity of perfect substitutes is

(a) Zero (b) Negative

(c) One (d) Infinity

Q.6. Supply is a _______ concept

(a) Flow (b) Stock

(c) Flow and Stock, both (d) Qualitative

Q.7. For what type of goods does demand fall with a rise in income levels of households?

(a) Inferior goods (b) Substitutes

(c) Luxuries (d) Necessities

Q.8. Which economist said that money is the measuring rod of utility?

(a) A.C Pigou (b) Marshall

(c) Adam Smith (d) Robbins

Q.9. Elasticity between two points:

(a) Point elasticity (b) Arc elasticity

(c) Cross elasticity (d) None.

Q.10. An indifference curve is L shaped, then two goods will be:

(a) Perfect substitute goods

(b) Substitute goods

(c) Perfect complementary goods

(d) Complementary goods

Q.11. The concept of consumer's surplus is derived from:

(a) The law of diminishing marginal utility.

(b) The law of equal-marginal utility

(c) The law of diminishing returns

(d) Engel's law

Q.12. When supply curve shifts to the right there is:

(a) An increase (b) expansion

(c) Contraction (d) decrease

Q.13. Short- run price is also called by the name of:

(a) Market price (b) Showroom price

(c) Maximum retail price (d) None of these.

Q.14. When supply price increase in the short run, the profit of the producer _______.

(a) Increases (b) decreases

(c) Remains constant (d) decreases marginally

Q.15. When Price of a commodity increases what will be the effect on quantity demanded?

(a) Increases (b) Decreases

(c) No change (d) None of these

Q.16. According to the law of supply, change in supply is related to?

(a) Price of goods

(b) Price of related goods

(c) Factors of production

(d) None of the above

Q.17. In case of inferior goods, with a rise in the income of consumers, demand for Giffen goods will

(a) Increases (b) Decreases

(c) No change (d) None of the above

Q.18. In case of necessaries, consumer surplus is?

(a) Infinite (b) Zero

(c) Equals to one (d) More than one

Q.19. When the price of a commodity rises from 200 to ₹ 300 and Quantity supply increases from 2000 to 5000 units, find the elasticity of supply?

(a) 3.0 (b) 2.5

(c) 0.3 (d) 3.5

Q.20. From the following data given below answer question 20 and 21-

Units	TU	MU
1	200	-
2	-	180
3	480	-

Total utility derived from 2^{nd} unit

(a) 380 (b) 20

(c) 100 (d) 280

Q.21. Marginal utility of 3^{rd} unit is?

(a) 200 (b) 280

(c) 100 (d) 50

Q.22. Which Equation is correct—

(a) $\frac{MUx}{MUy} = \frac{Px}{Py}$ (b) $\frac{MUx}{MUy} > \frac{Px}{Py}$

(c) $\frac{MUx}{MUy} < \frac{Px}{Py}$ (d) $\frac{MUx}{MUy} \neq \frac{Px}{Py}$

Q.23. The scope of the indifference curve shows consumer equilibrium at the point where

$MRS_{(xy)}$ ___ $\frac{Px}{Py}$ (Price line)

(a) Less than (b) More than

(c) Equal to (d) None of the above

Q.24. Which of the following is not the property of the indifference curve?

(a) IC is convex to the origin

(b) IC scopes downwards from left to right

(c) Two IC can touch each other

(d) IC cannot touch either of the axes

Q.25. Case of Normal goods, rise in price leads to _______?

(a) Fall in demand

(b) Rise in demand

(c) No change

(d) Initially rise then ultimately fall

Q.26. Method of demand forecasting does not include?

(a) Mathematical method

(b) Barometric method

(c) Expert opinion method

(d) Statistical method

Q.27. An IC shows MRS between the commodity?

(a) Increasing (b) Decreasing

(c) Constant (d) Zero

Q.28. Forecasting of demand is the Art and Science of predicting?

(a) Actual demand for a product at the same future date

(b) Probable demand in future

(c) Total demand in future

(d) None of these.

Q.29. Addition made to total utility refers to?

(a) Total utility (b) Average utility

(c) Marginal utility (d) All of the above.

Q.30. The elasticity of supply is zero means?

a) Perfectly inelastic (b) Perfectly elastic

(c) Imperfectly elastic (d) All of the above.

Q.31. The Consumer is in equilibrium when the following condition is satisfied:

(a) Budget line is tangent to the Ic curve

(b) $\frac{MU_x}{Px} = \frac{MU_y}{P_y} = \frac{MU_z}{P_z}$

(c) Both (a) and (b)

(d) None of the above

Q.32. Which of the following statement is correct?

(a) Supply is inversely related to its cost of production

(b)Price and quantity demand of a good have a direct relationship

(c) Taxes and subsidy has no impact on the supply of the product

(d) Seasonal changes have no impact on the supply of the commodity

Q.33. When the supply of a product is perfectly inelastic then the curve will be

(a) Parallel to Y-axis

(b) Parallel to X-axis

(c) At the angle of 45°

(d) Sloping upwards

Q.34. In the case of, there is an inverse relationship between income and demand for a product.

(a) Substitute goods

(b) Complementary goods

(c) Giffen Goods

(d) None of the above

Q.35. If maize has - 0.30 as income elasticity of demand, then maize will be considered as _

(a) Necessity (b) Inferior good

(c) Superior good (d) None

Q.36. If price decreases from 80 to 60 and elasticity of demand is 1.25 then _______.

(a) Demand increase by 25%

(b) demand decrease by 25%

(c) Remains constant

(d) None of the above

Q.37. Which of the following is / are the conditions of theory of consumer surplus if the price is same for all the units he purchased?

(a) The consumer gains extra utility or surplus

(b) Consumer surplus for the last commodity is zero

(c) Both

(d) None

Q.38. Which of the following is not the property of an indifference curve?

(a) Slopes downwards to the right

(b) Always convex to the origin

(c) Intersects each other

(d) Will not touch either of the axes

Q.39. Which of the following is correct ?

(a) Elasticity on the lower segment of demand curve is greater than unity

(b) Elasticity on the upper segment of demand curve is lesser than unity

(c) Elasticity at the middle of the demand curve is equal to unity

(d) Elasticity decreases as one moves from the lower part of the mark demand curve to upper part

Q.40. Which of the following will affect the demand for non-durable goods?

(a) Disposable (b) Income Price

(c) Demography (d) All of the above

Q.41. When the price of tea decreases, people reduce the consumption of coffee. Then the goods are

(a) Complementaries (b) Substitutes

(c) Inferior goods (d) Normal goods

Q.42. Which of the following relation is true with MU?

(a) When MU is positive, Total utility rises at a diminishing rate

(b) When marginal utility is zero, total utility is maximum

(c) When marginal utility is negative, total utility is diminishing

(d) All of the above

Q.43. Contraction of supply implies _______.

(a) Decrease in cost of production

(b) Decrease in price of the good concerned

(c) Decrease in price of related good mark

(d) Increase in price of the good concerned

Q.44. Perishable commodities will have

(a) Perfectly elastic curve

(b) Perfectly inelastic curve

(c) Elastic

(d) Inelastic

Q.45. Budget line is also called

a) Price line (b) Iso cost line

(c) Iso-quant (d) None

Q.46. The Quantity supplied of a goods or services is the amount that

(a) As actually bought during a given time period at given price.

(b) Producers wish, they could sell at higher price

(c) Producers plan to sell during a given time period at given price.

(d) People are willing to buy during a given their period at a given price.

Q.47. Luxury goods have income elasticity

(a) Negative and less than 1

(b) Positive and greater than 1

(c) Zero

(d) None

Q.48. An in difference curve slopes down towards right since more of one commodity and of another commodity result in

(a) Same level of satisfaction

(b) Maximum satisfaction

(c) Greater satisfaction

(d) Less satisfaction

Q.49. Elasticity for habitual goods is

(a) Perfectly elastic (b) Elastic

(c) Perfectly inelastic (d) Inelastic

Q.50. Diminishing marginal returns for the first four units of variable inputs is exhibited by the total product sequences.

(a) 50,100,150,200 (b)50,50,50,50

(c) 50,110,150,260 (d) 50,90,120,140

Q.51. Demand for a commodity refers to:

(a) A desire for the commodity

(b) Need for the commodity

(c) Quantity demanded of that commodity

(d) Quantity of the commodity demanded at a certain price during any particular period of time.

Q.52. Suppose the price of movies seen person to at a theatre rises from 120 per 200 per person. The theatre manager observed that the rise in prices has lead to a fall in attendance at a given movie from 300 persons to 200 persons. What is the price elasticity of demand for the movie? (Arc elasticity)

(a) 0.50 (b) 0.8

(c) 1.00 (d) None of these.

Q.53. In case of an inferior good, the income elasticity of demand is:

(a) Positive (b) Zero

(c) Negative (d) Infinite

Q.54. For what type of goods does demand fall with a rise in income levels of households?

(a) Inferior goods (b) Luxuries

(c) Substitutes (d) Necessities

Q.55. In case of Inferior goods like bajra, a fall in its price tends to:

(a) Make the demand remain constant

(b) Reduce the demand

(c) Increase the demand

(d) Change the demand in an abnormal way

Q.56. Movement along the same demand curve shows:

(a) Expansion of demand

(b) Expansion of supply

(c) Expansion and contraction of demand (d) Increase and decrease of demand

Q.57. The price of hot-dogs increases by 22% and the quantity demanded falls by 25% this indicates that demand for hot dogs is:

(a) Elastic (b) Inelastic

(c) Unitary elastic (d) perfectly elastic

Q.58. The quantity demanded does not respond to price change and so the elasticity is:

(a) Zero (c) Infinite

(b) One (d) None

Q.59. Which factor generally keeps the price-elasticity of demand for a good low:

(a) Variety of uses for that goods

(b) Its low price

(c) Close substitutes for that goods
(d) A high proportion of the consumer's income spent on it

Q.60. In 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

Q.61. An increase in demand can result from:
(a) A decline in the market price
(b) An increase in income
(c) A reduction in the price of substitutes
(d) An increase in the price of complements

Q.62. Compute income elasticity of demand increases by 5% and income by 1%.
(a) 5 (b) 1/5
(c) 0 (d) None

Q.63. For a commodity with a unitary elastic demand curve if the price of the commodity rises, then the consumer's total expenditure on this commodity would :
(a) Increase
(b)Decrease
(c)Remains constant
(d) Either increase or decrease

Q.64. What is the value of elasticity of demand if the demand for the goods is perfectly elastic?
(a) 0 (b) 1
(c) Infinity (d) Less than 0

Q.65. If the price of a complementary good rises :
(a)Demand curve shifts to the left
(b) Demand curve shifts to the right
(c) Demand curve moves downwards
(d)Demand curve moves upwards

Q.66. Cross elasticity of demand in Monopoly market is :
(a) Elastic (b) Zero
(c)Infinite (d) One

Q.67. What is income elasticity of demand, when income changes by 20% and demand changes by 40%
(a) 1/2 (b) 2
(c) 0.33 (b) None

Q.68. If demand is parallel to the X- axis, what will be the nature of elasticity?
(a) Perfectly elastic (b) Inelastic
(c) Elastic (d) Highly elastic

Q.69. Giffen Paradox is an exception of
(a) Demand (b) Supply Production Utility
(c) Production (d) Uitility

Q.70. Law of demand is a _________.
(a) Quantitative statement (b) qualitative statement
(c) Both (a) & (b) (d) Hypothetical

Q.71. The demand for which type of goods do not decrease with the increase in its price
(a) Comforts (b) Luxury
(c) Necessities (d) Capital goods

Q.72. Increase in Price from ₹4 to ₹6 then decrease in demand from 15 units to 10 units. What is the price elasticity? (Point elasticity)
(a)0.66 (b)15
(c)-1.5 (b) 2

Q.73. Expansion & contraction of the demand curve occurs due to:
(a) Change in the price of commodity
(b) Change in price of substitute or complementary goods
(c) Change in income
(d) None

Q.74. The elasticity between two points:
(a) Point elasticity (b) Arc elasticity
(c) Cross elasticity (d) None

Q.75. When price remains constant and quantity demanded changes, then the elasticity of demand will be:
(a) Vertical to X-axis (b)Horizontal to X-axis
(c) Either (a) or (b) (d) None

Q.76. cDemand of aommodity depends upon:
(a) Price (b) Income
(c) Price of related good (d)All of the above

Q.77. In case of substitute goods, cross elasticity Is_______.

(a) Negative (b) Zero

(c) Positive (d) None of these

Q.78 The prices of a commodity were increased from % 4 to 6. As a result, demand decreased from 15 units to 10 units. What is the price elasticity? (Point elasticity)

(a) 0.66 (b) 0.33

(c) 1.00 (d) 1.5

Q.79. Other things remaining constant, if the price of the inferior goods decreases then what will be the effect?

(a) Demand increases

(b) Demand decreases

(c) Quantity demanded increases

(d) Quantity demand decreases.

Q.80. Consumer spends ₹80 on purchasing a commodity when its price is ₹1 per unit and spends ₹96 when the price is ₹2 per unit. Calculate the price elasticity of demand.

(a) 0.2 (b) 0.3

(c) 0.4 (d) 0.5

Q.81. When the price of cylinder rises from ₹120 to ₹200, the demand falls from 300 to 200. Calculate the price elasticity of demand.

(a) 1.00 (b) 0.50

(c) 5.00 (d) None

Q.82. Demand for electricity power is elastic Because ________.

(a) it is available at a very high price

(b) it is essential for life

(c) it has many uses

(d) it has many substitutes

Q.83. If the income of a person increases by 10% and his demand for goods increases by 30%, income elasticity will be

(a) equal to one (b) less than one

(c) More than one (d) None of these

Q.84. The case of luxury goods, the income elasticity of demand will be

(a) zero

(b) negative but greater than one

(c) positive but greater than one

(d) positive but less than one

Q.85. The case of a straight-line demand curve meeting two axes, the price elasticity of demand at the point where the curve meets y-axis would Be_____.

(a)zero (b) greater than one

(c) less than one (d) infinity

Q.86. Calculate income elasticity for the household when the income of the household increases by 10% and the demand for cars rises by 20%.

(a) +2 (b) -2

(c) +5 (d) -5

Q.87. The commodity whose demand is associated with the name of Sir Robert Giffen?

(a) Necessary good (b) Luxury good

(c) Inferior good (d) Ordinary good

Q.88. In expansion and contraction of demand _____.

(a) Demand curve remains unchanged (b)demand curve changes

(c) The slope of the demand curve changes

(d) both (a) & (c) above

Q.89. Certain goods for which Quantity demanded decreases when Income Increases are called______ goods.

(a) superior (b)inferior

(c) prestige (d) conspicuous

Q.90. When the price falls by 5% and the demand in rises by 6%, then elasticity of demand is ______.

(a)elastic (b) inelastic

(c) unitary elastic (d) zero

Q.91. Cross elasticity of complementary goods is :

(a)Positive (b) Negative

(c) Infinity (d) None of these.

Q.92. Demand of i-pod increases from 950 to 980 and income increases from 9,000 to 9,800. What is income elasticity?

(a) 0.53 (b) 0.35

(c) 0.43 (d) None

Q.93. Contraction of demand results due to

(a) increase in the price of the goods

(b) decrease in the no. of the producers

(c) decrease in the output of the sellers

(d) decrease in the price of the goods.

Q.94. Bricks for houses is an example of which kind of demand?

(a) Composite (b) Competitive

(c) Joint (d) Derived.

Q.95. Normal goods have

(a) zero income elasticity

(b) negative income elasticity

(c) positive income elasticity

(d) infinite income elasticity

Q.96. In which of the following cases the demand for goods tends to be less elastic?

(a) Good is necessary

(b) The time-period is shorter

(c) Number of close substitutes is less

(d) All of the above

Q.97. Which of the following elasticity of demand measures a movement along the demand curve rather than a shift in the curve?

(a) Income elasticity of demand

(b) Price elasticity of demand

(c) Substitution elasticity of demand

(d) None of these.

Q.98. If the price elasticity of demand is zero, the shape of the curve will be:

If the price elasticity of demand is zero, the shape of the curve will be:

Q.99. If a 20% fall in the price of a commodity brings about a 40% increase in its demand, then the demand for the commodity will be termed as:

(a) Inelastic (b) Elastic

(c) Highly elastic (d) Perfectly elastic

Q.100. Expansion and contraction in demand are caused by

(a) Change in the income of the buyer

(b) Change in the taste and preference of the buyer

(c) Change in the price of the commodity

(d) Change in the price of the related goods.

Q.101. Fall in the price of normal goods leads to:

(a) A shift in the demand curve

(b) Fall in demand

(c) Arise in consumers real income

(d) A fall in consumers real income.

Q.102. 10% increase in the price of tea results is an 8% increase in the demand for coffee. Cross elasticity of demand will be :

(a) 0.80 (b) 1.25

(c) 1.50 (d) 0.80

Q.103. When the total expenditure incurred by the consumers on a commodity due to a change is its price remains the same, then the elasticity of demand for that commodity will be:-

(a) Zero (b) One

(c) More than one (d) Less than one

Q.104. What will be the price elasticity if the original price is ₹5, the original quantity is 8 units and the changed price is ₹6, and the changed quantity is 4 units:

(a) 2.5 (b) 2.0

(c) 15 (d) 1.0

Q.105. The original price of a commodity is ₹500 and quantity demanded of that is 20 kgs. If the price rises to ₹750 and the quantity demanded falls to 15 kgs. The price elasticity of demand will be:

(a) 0.25 (b) 0.50

(c) 1.00 (d) 1.50

Q.106. The demand for factors of production is —

(a) Fundamental demand

(b) Derived demand

(c) Market demand

(d) Joint demand.

Q.107. The price of a Tiffin Box is ₹100 per unit and the quantity demanded in the market is 1,25,000 units. Company increased the price to ₹125. Due to this increase in price, the quantity demanded decreases to

1,00,000 units. What will be the price elasticity of demand?
(a) 0.25 (b) 0.80
(c) 1.00 (d) None

Q.108. The price of a commodity decreases from 10 to 8 and the quantity demanded of it increases from 25 to 30 units, then the coefficient of price elasticity will be_____.
(a) 1.00 (b)-1.00
(c) 1.5 (d) -1.5

Q.109. Which of the following is not a determinant of demand?
(a) Consumer's tastes and preferences
(b) Quality supplied of a commodity
(c) Income of the consumers
(d) Price of related goods

Q.110. Demand curve parallel to the Y-axis implies:
(a) $Ep = 0$ (b) $Ep = 1$
(c) $Ep < 1$ (d) $Ep > 1$

Q.111. If the quantity demanded of X commodity increases by 5% when the price of Y commodity increases by 20%, the cross-price elasticity of demand between X and Y commodity will be:
(a) -0.25 (b) 0.25
(c) -4.00 (d) 4.00

Q.112. Which amongst the following is the right formula for calculating the price elasticity of demand using ratio method?
(a) $(\Delta Q/\Delta P) \times (P/Q)$ (b) $(\Delta P/\Delta Q) \times (Q/P)$
(c) $(\Delta Q/\Delta P) \times (Q/P)$ (d) $(\Delta P/\Delta Q) \times (1/P)$

Q.113. Straight line demand curve at the point of meeting the x-axis will indicate elasticity coefficient Equal to ________.
(a) One (b) Infinity
(c) Zero (d) More than one

Q.114. Changes in the quantity demanded in response to changes in the price of the same commodity is called:
(a) Change in demand
(b)Change in quantity demanded
(c) Income demand
(d) Cross demand

Q.115. Other things being equal, a fall in the price of the complementary goods will cause the of the other to rise.
(a) Price (b) Supply
(c) Demand (d) Utility

Q.116. A horizontal demand curve parallel to X-axis shows that the elasticity of demand is:
(a) Zero (b) Equal to unity
(c) Greater than unity (d) Infinite.

Q.117. When the price of a commodity increases from Z 8 to 9, its demand decreases by 10%. The price elasticity of demand for the commodity
(a) 0.8 (b) 0.9
(c) 1.0 (d) 1.1

Q.118. Which one of the following is correct about the price elasticity of demand for a commodity?
(a) It remains the same under all situations
(b) It has several degrees/nature
(c) It remains unaffected by the price of any other commodity
(d)It is an immeasurable concept.

Q.119. The supply of a good refers to :
(a) Actual production of goods
(b) Total stock of goods
(c) Stock available for sale
(d) Amount of goods offered for sale at a particular price per unit of time

Q.120 Increase or Decrease in Supply means:
(a) Shift in Supply curve
(b) Movement along the same supply curve
(c) Both (a) and (b)
(d) Neither (a) or (b)

Q.121. When supply price increase in the short run, the profit of the producer ________.
(a) Increases (b) Decreases
(c) Remains constant (d)Decreases marginally

Q.122. A change in the supply of a commodity along with the same supply curve may occur due to:
(a) Change in the price of the commodity
(b) Change in the prices of related goods

(c) Change in future expectations about the price of the goods
(d) Change in the cost of inputs

Q.123. What is the elasticity of supply, when price changes from ₹15 t0 ₹12 and supply change from 6 units to 5 units?

(a) 0.77	(b) 0.87
(c) 0.833	(d) 0.58

Q.124. If the supply of a commodity is perfectly elastic, an increase in demand will result in:
(a) Decrease in both the price and quantity at equilibrium
(b) Increase in both the price and quantity at equilibrium
(c) Increase in equilibrium quantity, equilibrium price remaining constant
(d) Increase in equilibrium price, equilibrium quantity remaining constant

Q.125. When the change in the quantity supplied is proportionate to the change in the price, the producer is said to have ______.
(a) Perfectly elastic supply
(b) Relatively elastic supply
(c) Unitary elastic supply
(d) Perfectly inelastic supply

Q.126. Expansion in supply refers to a situation when the producers are willing to supply a:
(a) Larger quantity of the commodity at an increased price
(b) Larger quantity of the commodity due to increased taxation on that commodity
(c) Larger quantity of the commodity at the same price
(d) Larger quantity of the commodity at the decreased price

Q.127. If there is an improvement in the technology ______.
(a) The supply curve shifts to the left
(b) The supply curve shifts to
(c) The right quantity supplied increase
(d) Both (b) and (c)

Q.128. If the price of apples rises from ₹30 per Kg to ₹40 per Kg and the supply increases from 240 Kg to 300 Kg. Elasticity of supply is :

(a) 0.75	(b) 0.67
(c) 00.67	(d) 00.77

Q.129. Increase or decrease in supply means:
(a) Change in supply due to change in its own price
(b) Change in supply due to change in factors other than its own price
(c) Both of the above
(d) None of the above

Q.130. When Supply Curve shifts to the right there is _______ in Supply.

(a) In increase	(b) Expansion
(c) Contraction	(d) Decrease.

Q.131. The supply of the commodity implies?
(a) Total Output during a specified period
(b) Its total stock
(c) Its stock available for sale
(d) Its Quantity Offered for sale at a particular price per unit of time

Q.132. Supply of a commodity is a ______.
(a) Stock concept
(b) Flow concept
(c) Both stock and Flow concept
(d) Wholesale concept

Q.133. The price of mangoes increases from ₹30 per kilogram to ₹40 per kilogram and the supply increases from 240 kilograms the 300 kilograms. What will be the elasticity of supply for mangoes?

(a) -0.67	(b) + 0.67
(c) -0.77	(d) + 0.75

Q.134. If a 20% fall in price brings about a 10% fall in quantity supplied, in such a case elasticity of supply will be equal to:

(a) 2.0	(b) 0.5
(c) 1.0	(d) 1.5

Q.135. At a price of ₹25 per kg, the supply of a commodity is 10,000 kg per week. An increase in its price to ₹30 per kg, increases the supply of the commodity to 12,000 kg per week. The elasticity of supply will be:

(a) 0.75	(b) 1.00

(c) 1.50 (d) 1.75

Q.136. Short- run price is also called by the name of ______.

(a) Market price (b) Showroom price
(c) Maximum retail price (d) None of these.

Q.137. The elasticity of supply is greater than one when:

(a) Proportionate change in price is more than the proportionate change in quantity supplied
(b) Proportionate change in quantity supplied is more than the proportionate change in price
(c) Change in price and quantity supplied are equal
(d) All of the above

Q.138. After reaching saturation point consumption of additional units of commodity causes

(a) Total utility to fall and marginal utility to increase
(b) Total 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

Q.139. As the price of a commodity increases, normally, its supply:

(a) Decreases (b) Remains unchanged
(c) Increases (d) Cannot be determined

Q.140. If equilibrium is present in a market then it can be said that:

(a) The price of the product will tend to rise
(b) Quantity demanded equals quantity supplied
(c) Quantity demanded exceeds quantity supplied
(d) Quantity supplied exceeds quantity demanded

Q.141. An increase in supply denotes a shift in the supply curve to the right. If there is an increase in supply without a change in demand, the equilibrium price will and the quantity demanded will go up.

(a) Fall (b) Remain constant
(c) Increase (d) Becomes zero.

Q.142. Which among the following is not a determinant of supply?

(a) Price of the commodity concerned
(b) Prices of the factors of production
(c) State of technology used in the production process
(d) Customs and traditions in society

Q.143. 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.

Q.	Ans.	Q.	Ans.	Q.	Ans.	Q.	Ans.	Q.	Ans.
1	A	31	C	61	B	91	B	121	A
2	A	32	A	62	A	92	B	122	A
3	B	33	A	63	C	93	A	123	C
4	B	34	C	64	C	94	D	124	C
5	D	35	B	65	A	95	C	125	C
6	A	36	D	66	B	96	D	126	A
7	A	37	C	67	B	97	B	127	B
8	A	38	C	68	A	98	B	128	A
9	B	39	C	69	A	99	C	129	B
10	C	40	D	70	B	100	C	130	A
11	A	41	B	71	C	101	C	131	D
12	A	42	D	72	A	102	A	132	B
13	A	43	B	73	A	103	B	133	D
14	A	44	B	74	B	104	A	134	B
15	B	45	A	75	B	105	B	135	B
16	A	46	C	76	D	106	B	136	A
17	B	47	B	77	C	107	B	137	B
18	A	48	A	78	A	108	B	138	C
19	A	49	C	79	D	109	B	139	C
20	A	50	D	80	C	110	A	140	B
21	C	51	D	81	B	111	B	141	A
22	A	52	D	82	C	112	A	142	D
23	C	53	C	83	C	113	C	143	A
24	C	54	A	84	C	114	B		
25	A	55	B	85	D	115	C		
26	A	56	C	86	A	116	D		
27	B	57	A	87	C	117	A		
28	B	58	A	88	D	118	B		
29	C	59	B	89	B	119	D		
30	A	60	B	90	A	120	A		

PRODUCTION BASICS

Q 1. In Economics,_______ refers to any economic activity, which is directed towards satisfaction of human wants.

(a) Production (b) Distribution
(c) Consumption (d) Economics

Q. 2 In Economics, Production refers to any economic activity —

(a) Which results in a tangible product or commodity
(b) Which is directed at the satisfaction of human wants.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 3. Which of the following statement is True? Production can be defined as—

(a) Creation or addition of utility
(b) Conversion of raw material into finished goods
(c) An activity of making something immaterial
(d) All of thesezz

Q 4. In Economics, Production refers —

(a) Creation of utility (b) Satisfaction of utility
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 5. Production may be defined as an act of—

(a) Creating utility. (b) Earning profit.
(c) Destroying utility. (d) Providing services.

Q 6. Production is a / an activity.

(a) Charitable (b) Beneficial
(c) Economic (d) Successful

Q 7. Production does not consist of which of the following activities?

(a) Changing the from of natural resources
(b) Changing the place of the resources
(c) Both of the above
(d) None of the above

Q 8. Production = Satisfaction of Utility. This statement is

(a) True (b) False
(c) Partially True (d) None of the above

Q 9. Production refers to —

(a) Creation of value
(b) Addition of value
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 10. Production refers to —

(a) Tangible goods and products
(b) Intangible services
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 11. Production is defined as

(a) Creation of matter
(b) Creation of utility in matter
(c) Creation of infrastructural facilities
(d) None of these

Q 12. Which of the following statements regarding Service Industry is true?

(a) Service Industry uses less Capital Equipment
(b) Service Industry uses more Capital
(c) Service Industry uses no Capital Equipment
(d) Service Industry uses less Variable Factors

Q 13. Production refers to —

(a) Capital Goods only
(b) Consumer Goods only
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 14. Production includes —

(a) Mining (b) Manufacturing
(c) Service providing (d) All of above

Q 15. 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 manhole on the road
(d) Painting a picture for pleasure

Q 16. Which of the following statements is true?

(a) Services of a Doctor are considered Production

(b) Man can create matter
(c) Services of a Housewife are considered Production
(d) When a man creates a table, he creates matter
(e) None of the above

Q 17. Work of a Professional (like Chartered Accountant) does not result in any tangible output. Hence, it is not a Production Activity in Economics. This statement is —
(a) True
(b) False
(c) Partially True
(d) None of the above

Q 18. Which of these is a Production Activity?
(a) Sale of Apples and Mangoes
(b) Sale of Crackers during Festival Season
(c) Distributing Water Packets in a temple festival
(d) All of the above

Q 19. Production Activity involves creation of Utility. Such Utility can be created as —
(a) Form Utility (b) Place Utility
(c) Time Utility (d) All of the above

Q 20. In Production Activity, one of the ways of creating Utility is —
(a) Form Utility (b) Marginal Utility
(c) Total Utility (d) All of the above

Q 21. Utility refers to physically changing the form of natural resources.
(a) Form Utility (b) Place Utility
(c) Time Utility (d) Personal Utility

Q 22. Utility refers to changing the place of the resources, from place of lesser use to place of greater use.
(a) Form Utility (b) Place Utility
(c) Time Utility (d) Personal Utility

Q 23. Utility is created by making goods and services available at times when they are not normally available.
(a) Form Utility (b) Place Utility
(c) Time Utility (d) Personal Utility

Q 24. Utility involves making use of personal skills in the form of services.
(a) Form Utility (b) Place Utility
(c) Time Utility (d) Personal Utility

Q 25. Raw Material converted into Finished Product in the manufacturing process, refers to creation of
(a) Form Utility (b) Place Utility
(c) Time Utility (d) Personal Utility

Q 26. If Apples from Kashmir are available for Sale in Chennai, it refers to creation of —
(a) Form Utility (b) Place Utility
(c) Time Utility (d) Personal Utility

Q 27. Extraction from coal, minerals, gold, etc. from Earth, refers to creation of —
(a) Form Utility (b) Place Utility
(c) Time Utility (d) Personal Utility

Q 28. Place Utility involves Changing the place of the resources, from the place where they are of use, to another place where they are of use.
(a) Lesser, greater
(b) Greater, lesser
(c) Specific, general
(d) General, specific

Q 29. Storing harvested foodgrains for use till next harvest is an example of creation of —
(a) Form Utility (b) Place Utility
(c) Time Utility (d) Personal Utility

Q 30. Work of Professionals like Doctors, Chartered Accountants, etc. can be considered under —
(a) Form Utility (b) Place Utility
(c) Time Utility (d) Personal Utility

Q 31. To complete production, all four types of utilities, i.e. Form, Place, Time and Personal Utility, should be created. This statement is —{Omit this Question}
(a) True (b) False
(c) Partially True (d) None of the above

Q 32. Productive Resources required to produce goods and / or services are called —
(a) Resources of Production
(b) Concepts of Production
(c) Factors of Production

(d) Ideas of Production

Q 33. Factors of Production are —

(a) Natural Resources
(b) Man Made Resources
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 34. Which of these is not a basic Factor of Production in Economics?

(a) Land (b) Enterprise
(c) Capital (d) Money

Q 35. Which of the following is a factor(s) of production?

(a) Labour (b) Capital
(c) Entrepreneurship (d) All of these

Q 36. The demand for a Factor of Production is said to be a Derived Demand because—

(a) It is a function of the profitability of an enterprise
(b) It depends on the supply of complementary factors
(c) Its stems from the demand for the final product
(d) It arises out of means being scarce in relation to wants.

Q 37. The Incentive / Reward in respect of Land is called

(a) Rent (b) Wages
(c) Interest (d) Profit

Q 38. The Incentive / Reward in respect of Labour is called

(a) Rent (b) Wages
(c) Interest (d) Profit

Q 39. The Incentive / Reward in respect of Capital is called

(a) Rent (b) Wages
(c) Interest (d) Profit

Q 40. The Incentive / Reward in respect of Entrepreneurial Ability is called —

(a) Rent (b) Wages
(c) Interest (d) Profit

LAND

Q 41. Land refers to —

(a) All free gifts of nature.
(b) All man—made resources
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 42. Land refers to —

(a) Soil and earth's surface
(b) Fertility of soil
(c) Natural resources
(d) All of the above

Q 43. Anything available above the earth's surface is called "Land". This statement is —

(a) True (b) False
(c) Partially True (d) None of the above

Q 44. As a Factor of Production, Land is —

(a) A free gift of nature.
(b) Fixed in quantity
(c) Variable in terms of fertility and uses
(d) All of above are correct.

Q 45. As a Factor of Production, Land is —

(a) Permanent
(b) Original and indestructible
(c) Free gift of nature
(d) All of above are correct.

Q 46. As a Factor of Production, Land is —

(a) Fixed in quantity
(b) Variable in quantity
(c) Not quantifiable at all
(d) Not useful for production.

Q 47. As a Factor of Production, "Land" is a means of Production.

(a) Original (b) Produced
(c) Derived (d) Monetary

Q 48. As a Factor of Production, the Supply of Land is from the viewpoint of the entire economy.

(a) Perfectly elastic (b) More elastic
(c) Less elastic (d) Perfectly inelastic

Q 49. As a Factor of Production, the Supply of Land is perfectly inelastic from the viewpoint of —
(a) The entire economy
(b) An Individual Firm
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 50. As a Factor of Production, the Elasticity of Supply of Land from the viewpoint of the entire economy is —
(a) Infinite (b) Zero
(c) Positive (d) Negative

Q 51. As a Factor of Production, the Supply of Land is relatively elastic from the viewpoint of —
(a) The entire economy
(b) An Individual Firm
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 52. As a Factor of Production, Land is permanent. This means that Land —
(a) Remains before and after cultivation
(b) Cannot be destroyed or lost
(c) Cannot be used for production at all
(d) None of the above

Q 53. If Land is used for productive purposes, its fertility is reduced. Such fertility —
(a) Can be restored
(b) Cannot be restored at all
(c) Is lost forever
(d) Both (b) and (c)

Q 54. As a Factor of Production, Land lacks mobility. Lack of mobility means —
(a) Land cannot be used for anything other production of Rice.
(b) Land cannot be shifted from one place to another place
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 55. As a Factor of Production, Land lacks mobility in the sense.
(a) Geographical (b) Utility
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 56. As a Factor of Production, Land is mobile across
(a) Places (b) Uses
(c) Both (a) and (b) (d) Neither (a) nor (b)

LABOUR

Q 57. refers to mental or physical exertion directed to produce goods or services, and with a view to gain an economic reward.
(a) Land (b) Enterprise
(c) Capital (d) Labour

Q 58. Activities done out of pleasure, love and affection, pastime, hobbies, etc. may be very useful in increasing human well—being, and hence constitute Labour. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 59. To have an economic significance, Labour must be done with —
(a) The motive of some economic reward
(b) The motive of pleasure and satisfaction
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 60. Which of these constitute "Labour"?
(a) Singing in the company of friends for the sake of pleasure.
(b) Singing against payment of a fee.
(c) Singing while walking on the road
(d) None of the above

Q 61. Services of a Maid Servant constitutes Labour, while Services of a Housewife does not. This statement is
(a) True (b) False
(c) Partially True (d) None of the above

Q 62. As a Factor of Production, "Labour" is a means of Production.
(a) Original (b) Produced
(c) Derived (d) Monetary

Q 63. Which of these constitute a feature of "Labour", as a Factor of Production?

(a) Human Efforts
(b) Perishable Nature
(c) Weak bargaining power
(d) All of the above

Q 64. "Labour", as a Factor of Production involves —
(a) Economic Considerations only
(b) Human and Psychological Considerations
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 65. "Labour", as a Factor of Production involves —
(a) Free Gift of Nature
(b) Human Efforts
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 66. "Labour", as a Factor of Production involves human efforts, with a view to gain —
(a) Pleasure only
(b) Mental satisfaction
(c) An economic reward
(d) Use of time

Q 67. As a Factor of Production, "Labour" is —
(a) Perishable
(b) Permanent
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 68. Which is not a characteristic of labour?
(a) Labour is not separable from labourer
(b) Labour is perishable
(c) Labour is not a mobile factor
(d) Labour is an active factor

Q 69. As a Factor of Production, "Labour" is perishable. This means that —
(a) A day's labour lost cannot be completely recovered subsequently.
(b) Every human being is mortal and will have to leave this world some day or the other.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 70. As a Factor of Production, a day's "Labour" lost cannot be —
(a) Measured at all
(b) Recovered at all
(c) Completely recovered
(d) None of the above

Q 71. Since there is no Reserve Price, Labour has —
(a) Weak bargaining power
(b) Strong bargaining power
(c) No bargaining power
(d) Infinite bargaining power

Q 72. The purpose of Labour Laws is primarily to —
(a) Increase bargaining power of Labour
(b) Maintain Labour Welfare
(c) Guarantee work for each individual
(d) All of the above

Q 73. Labour is inseparable from the Labourer himself. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 74. Labour Power depends upon —
(a) Physical strength
(b) Education and skills
(c) Motivation to work
(d) All of the above

Q 75. Generally, Supply of Labour and Wage Rates are related.
(a) Directly (b) Inversely
(c) Equally (d) Not related at all.

Q 76. Direct relationship between Wage Rates and Supply of Labour means that —
(a) Increase in Wage Rates will decrease the Supply of Labour
(b) Decrease in Wage Rates will increase the Supply of Labour
(c) Increase in Wage Rates will increase the Supply of Labour
(d) Increase in Wage Rates will not affect the Supply of Labour at all

Q 77. Generally, Supply of Labour and Wage Rates are directly related. However, at very low wage rates, there

is a paradox of excess supply of Labour. This paradox is attributed to —
(a) Some more members of the family, who were not working before, may start working.
(b) Workers may prefer to work overtime to increase their earnings.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 78. Supply of Labour and Wage Rates are always directly related. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 79. Supply of Labour and Wage Rates may become inversely related at —
(a) Very high wage rates
(b) Very low wage rates
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 80. Which of the following statements is not true about Labour Economies?
(a) Larger Scale of Production enables the division of labour
(b) Division of Labour is not profitable at small scale of production
(c) Division of Labour results in imporving worker's skills
(d) Division of Labour is impossible in Firms with large scale production

CAPITAL

Q 81. is that part of wealth of an individual or community, which is used for further production of wealth, or which yields an income.
(a) Land (b) Enterprise
(c) Capital (d) Labour

Q 82. As a Factor of Production, "Capital" can be used for —
(a) Further production of wealth
(b) Yielding further income income
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 83. All Capital is Wealth, but all Wealth is not Capital. This statement is —
(a) True
(b) False
(c) Partially True
(d) None of the above

Q 84. If a Resource is lying idle, it will constitute
(a) Wealth
(b) Capital
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 85. If a Resource is being used for generating further revenue, it will constitute —
(a) Wealth
(b) Capital
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 86. Which of these constitutes "Capital"?
(a) Land
(b) Water
(c) Air
(d) Plant and Machinery

Q 87. As a Factor of Production, "Capital" is a _________ concept.
(a) Stock
(b) Flow
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 88. Income arising out of "Capital" is a concept.
(a) Stock
(b) Flow
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 89. As a Factor of Production, "Capital" is a __________ means of Production.
(a) Original (b) Primary
(c) Produced (d) Monetary

Q 90. Capital * Wealth. This statement is —
(a) True
(b) False

(c) Partially True
(d) None of the above

Q 91. As a Factor of Production, "Capital" is —
(a) A free gift of nature
(b) Produced by man alone
(c) Produced by man working with nature
(d) Not relevant at all.

Q 92. As a Factor of Production, "Capital" is —
(a) Mobile
(b) Produced means of production
(c) Produced by man working with nature
(d) All of the above

Q 93. As a Factor of Production, Capital is mobile across —
(a) Places / Countries
(b) Uses / Purposes
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 94. As a Factor of Production, "Capital" is —
(a) Perishable
(b) Permanent
(c) Both (a) and (b)
(d) Neither (a) nor (b)

CAPITAL FORMATION

Q 95. The process of increase in the stock of real capital in a country is called —
(a) Stock Increase
(b) Capital Formation
(c) Increase in GDP
(d) Resource Allocation

Q 96. Capital Formation means —
(a) A sustained increase in the stock of real capital in a country.
(b) Production of more capital goods, which are used for further production of goods.
(c) Investment
(d) All of the above

Q 97. Capital Formation is required for —
(a) Replacement and renovation of existing machinery and equipment
(b) Creating additional productive capacity
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 98. Capital Formation is required for —
(a) Increasing the efficiency of production efforts
(b) Expansion of output of consumer goods in the future,
(c) Ensuring growth of the economy
(d) All the above

Q 99. For the purpose of Capital Formation —
(a) Current consumption is to be sacrificed to a certain extent
(b) Current income should be saved
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 100. If the whole of the current capacity is used to produce only Consumer Goods —
(a) Production of Consumer Goods in the future will be affected
(b) Economy cannot grow in future
(c) Production Possibility Curve (PPC) cannot shift outside
(d) All of the above

Q 101. Larger production of goods would lead to higher production in future.
(a) Consumer Goods.
(b) Capital Goods.
(c) Agricultural Goods.
(d) Public Goods.

Q 102. A 100% Consumption Economy —
(a) Cannot have any Capital Formation
(b) Will become static and cannot grow
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 103. Capital Formation is possible by —
(a) Using whole of the current capacity to produce only Consumer Goods
(b) Reducing present consumption to a certain extent
(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 104. If current consumption is reduced for the purpose of Capital Formation, that represents a

(a) Uneconomic activity
(b) Current sacrifice for future growth
(c) Decrease in demand
(d) Decrease in resources

Q 105. Capital Formation involves —

(a) Creation of Savings
(b) Mobilisation of Savings
(c) Investment of Savings into Real Capital
(d) All of the above

Q 106. For the purpose of Capital Formation, which of the following create "Savings" in an economy?

(a) Individuals or Households
(b) Business Enterprises
(c) Government
(d) All of the above

Q 107. For the purpose of Capital Formation, which of the following create maximum "Savings" in an economy?

(a) Individuals or Households
(b) Business Enterprises
(c) Government
(d) None of the above

Q 108. Level of Savings depends upon —

(a) Ability to Save
(b) Willingness to Save
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 109. Ability to Save depends upon —

(a) Average level of income
(b) Distribution of national income.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 110. If there is an increase in income levels, the propensity to consume —

(a) Reduces (b) Increases
(c) Remains constant (d) Becomes zero

Q 111. 1f there is an increase in income levels, the propensity to save —

(a) Reduces,
(b) Increases
(c) Remains constant
(d) Becomes zero

Q 112. Higher the level of income, Higher is the level of Savings. This statement is —

(a) True (b) False
(c) Partially True (d) None of the above

Q 113. Higher the level of income, Higher is the level of Savings. This statement is true in respect of

(a) Individual Households only
(b) Overall Economy
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 114. A country has greater ability to save than a country.

(a) Rich, Poor
(b) Poor, Rich
(c) Good, Bad
(d) Nothing can be said

Q 115. Willingness to Save depends upon —

(a) An individual's concern about his future
(b) Social setup in which the individual lives.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 116. If Willingness to Save is less, the level of will be higher.

(a) Government regulated Savings
(b) Compulsory Savings
(c) Forced Savings
(d) All of the above

Q 117. save by way of Retained Earnings, i.e. Undistributed Profits.

(a) Individuals or Households
(b) Business Enterprises
(c) Government
(d) All of the above

Q 118. Which of these is a source of savings for Government?

(a) Tax and Fees Collections
(b) Profits of PSUs
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 119. Which of these play a role in mobilisation of savings in an economy?

(a) Banks
(b) Financial Institutions
(c) Capital Market
(d) All of the above

Q 120. Real Capital Formation requires —

(a) An entrepreneurial class which is prepared to bear the risk of business
(b) Economic and industrial policies in which Investment is given initiative
(c) An inducement to invest, e.g. prospective rate of profit
(d) All of the above

Q 121. Inducement to Invest is influenced by —

(a) Prospective Rate of Profit
(b) Rate of Interest
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 122. Prospective Rate of Profit is also called —

(a) Rate of Interest on Bank Deposits
(b) Marginal Efficiency of Capital
(c) Marginal Utility of Capital Employed
(d) Marginal Revenue

Q 123. Scheme of Subsidies for setting up industries in backward regions leads to —

(a) Balanced Regional Development
(b) Socially—Beneficial Capital Formation
(c) Both (a) and (b)
(d) Neither (a) nor (b)

ENTREPRENEUR

Q 124. Is the person who combines the various factors of production in the right proportions, initiates the process of production and bears the risk involved in it.

(a) Capitalist (b) Socialist
(c) Government (d) Entrepreneur

Q 125. The most important function of an entrepreneur is to

(a) Innovate
(b) Bear the sense of responsibility
(c) Finance
(d) Earn Profit.

Q 126. Entrepreneur is also called as —

(a) Organiser (b) Manager
(c) Risk—Taker (d) All of the above

Q 127. Entrepreneurship is a wider term than organization and management of a business. This statement is —

(a) True (b) False
(c) Partially True (d) None of the above

Q 128. Entrepreneur —

(a) Is the catalyst in the process of using the factors of production.
(b) Gives direction to the usage of other factors of production
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 129. Entrepreneurship gets its reward (i.e. Profit), only after all other factors of production have been rewarded. This statement is —

(a) True (b) False
(c) Partially True (d) None of the above

Q 130. The reward / incentive / remuneration for Entrepreneurship is a amount.

(a) Fixed (b) Variable
(c) Semi—Variable (d) Irrelevant

Q 131. The functions of an Entrepreneur include —

(a) Initiating a business enterprise and resource coordination
(b) Risk—bearing or uncertainty—bearing
(c) Introducing Innovations on a continuous basis
(d) All of the above

Q 132. Innovation theory of entrepreneur is propounded by—

(a) Prof knight (b) Schumpeter
(c) Max weber (d) Peter Ducker

Q 133. Which of the following constitute Innovation?

(a) Introduction of a new or improved product
(b) Utilisation of new or improved source of Raw Material
(c) Introduction of new or improved production methods / machinery
(d) All of the above

Q 134. Which of the following constitute Innovation?

(a) Opening—up new or improved markets
(b) Utilisation of new or improved source of Raw Material
(c) Introduction of a new or improved product
(d) All of the above

Q 135. Organic Objectives of Enterprises —

(a) Survival
(b) Growth and Expansion
(c) Both (a) and (b)
(d) Either (a) or (b)

Q 136. Accounting Profits is also called —

(a) Book Profit
(b) Pure Profit
(c) Super Profit
(d) Super Normal Profit

Q 137. Economic Profit is also called —

(a) Pure Profits
(b) Super Normal Profits
(c) Abnormal Profits
(d) All of the above 180.

Q 138. The difference between Economist's Profit and Accountant's Profit is

(a) Consideration of Direct Cost
(b) Consideration of depreciation
(c) Consideration of Opportunity Cost
(d) There is no difference

Q 139. To enable Employees enjoy a good standard of living and maintain work—life balance, is a

(a) Social Objective
(b) Human Objective
(c) National Objective
(d) Economic Objective

Q 140. Which of the following is a National Objective of an enterprise

(a) To remove inequality of opportunities and provide fair opportunity to all to work and to progress
(b) To make the job contents interesting and challenging
(c) To avoid profiteering and anti—social practices
(d) To maximize profits

Q 141. To ensure that the Enterprise's output does not cause any type of pollution — air, water or noise, is a

(a) Social Objective
(b) Human Objective
(c) National Objective
(d) Economic Objective

Part B- PRODUCTION FUNCTION

Q 142. is the functional relationship between physical inputs (i.e. factors of production), and physical outputs (i.e. quantity of goods / services produced).

(a) Input—Output Function
(b) Demand—Supply Function
(c) Production Function
(d) Cost Function

Q 143. Production Function deals with —

(a) Quantitative Values of Input and Output
(b) Monetary Values of Products
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 144. Shows the output produced with a given amount of inputs.

(a) Cost Function
(b) Production Function
(c) Demand Function
(d) Isoquants

Q 145. Production Function explains the relationship between —

(a) Maximum Output which can be produced from given units of different inputs
(b) Price and Cost
(c) Maximum Output which can be produced at various points of time
(d) Various Stages of Production

Q 146. Production function is

(a) purely technical relationship between input &output
(b) Purely economic relationship between input &output
(c) Both (a) & (b)
(d) None of the these

Q 147. In a Production Function, Input means —

(a) Goods and Services produced
(b) Factors of Production required
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 148. In a Production Function, Output means —

(a) Goods and Services produced
(b) Factors of Production required
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 149. Production Function states the relationship between inputs and output, keeping technology

(a) Zero (b) Increasing trend
(c) Decreasing trend (d) Constant

Q 150. Production Function specifies the output that can be produced with given quantities of inputs, in the existing state of technology.

(a) Minimum (b) Maximum
(c) Average (d) Zero

Q 151. Production Function specifies the quantities of various inputs that are required to yield a given quantity of output.

(a) Minimum (b) Maximum
(c) Average (d) Zero

Q 152. In a Cobb-Douglas production function, two inputs are

(a) Land and Labour
(b) Capital and Labour
(c) Capital and Entrepreneur
(d) Entrepreneur and land

Q 153. Under Cobb-Douglas production function contribution of capital and labour respectively-

(a) 3/14th , 1/4th (b) 1/4th ,3/14th
(c) 1/2 th , 1/2 th (d) none of the above

Q 154. Production Function specifies —

(a) Maximum amount of output that can be produced with given quantities of inputs
(b) Minimum quantities of various inputs that are required to yield a given quantity of output.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 155. Which of the following is the best definition of the "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

Q 156. The Production Function is a relationship between a given combination of inputs and—

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

Q 157. In general, most of the Production Functions measure —

(a) Productivity of factors of production.
(b) Relation between the factors of production.
(c) Economies of Scale.

(d) Relations between change in physical inputs and physical output.

Q 158. Which of the following is/are an outcome of a technological change?
(a) A downward shift in the production function
(b) Same output with fewer inputs or more output with same inputs
(c) Invention of a product or production process
(d) Both (b) and (c) above

Q 159. Which of the following statements regarding Production Function is false?{Omit this Question}
(a) It just shows the relationship between output and input
(b) It does not provide any information on the least—cost Capital Labour combination
(c) In reveals the output that yields the maximum profit
(d) Both (a) and (c)

SHORT RUN vs LONG RUN

Q 160. The time period(s) covered in Economics Study is / are —
(a) short—run (b) long—run
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 161. Is the period of time in which all but one factor of production are variable.
(a) Short—run (b) Long—run
(c) Medium—run (d) None of the above

Q 162. In the short—run, factor(s) of production is / are variable.
(a) All (b) None
(c) One (d) All of the above

Q 163. Variable Factors means those Factors of Production —
(a) Which can be only changed in the long run
(b) Which can be changed in the short run
(c) Which can never be changed
(d) All of the above

Q 164. There is only one Fixed Factor of Production in the short—run planning horizon. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 165. The difference between Fixed and Variable Factors of Production is relevant in —
(a) Medium—run (b) Short —run
(c) Long—run (d) All of the above

Q 166. In the short—run, factors of production changes.
(a) Proportion between (b) Quantity of
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 167. In the short—run, the proportion between factors of production —
(a) Remains constant (b) Changes
(c) Is zero (d) Is infinity

Q 168. In the short—run, the proportion between factors of production changes because —
(a) One of the Factor is kept constant
(b) Every Factors is kept constant
(c) It is not the long—run
(d) There is no explanation for such behaviour

Q 169. Law of is applicable in the short— run.
(a) Variable Proportions
(b) Returns to Scale
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 170. Law of Variable Proportions is applicable to —
(a) Medium—run (b) Short —run
(c) Long—run (d) All of the above

Q 171. Which of the following activities cannot take place in the short—run?
(a) Changing the quantity of labour employed
(b) Changing the input combination
(c) Regular maintenance of the Plant to ensure efficient production
(d) Installation of an Additional Plant to meet future requirements

Q 172. 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

Q 173. ____ is the period of time in which all the factors of production are variable.
(a) Short—run (b) Long—run
(c) Medium—run (d) None of the above

Q 174. In the long—run, factor(s) of production is / are variable.
(a) All (b) Many
(c) One (d) None

Q 175. In the long—run, ____________ factors of production changes.
(a) Proportion between (b) Quantity of
(c) Need for (d) None of the above

Q 176. In the long—run, the quantity of factors of production
(a) Remains constant (b) Changes
(c) Is zero (d) Is infinity

Q 177. In the long—run, the quantity of factors of production changes because —
(a) One of the Factor is kept constant
(b) Every Factor is kept constant
(c) Every Factor is considered variable
(d) There is no explanation for such behaviour

Q 178. Law of _______________ is applicable in the long—run.
(a) Variable Proportions
(b) Returns to Scale
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 179. Which of the following statements regarding short run and long run is true?
(a) Firms plan for the long run but operate in the short run
(b) Firms plan in the short run but operate in the long run
(c) Firms operate and plan as well in the long run
(d) Firms operate and plan as well in the short run

Q 180. __________ is the improvement in the production techniques for existing production.
(a) Process Innovation
(b) Production Innovation
(c) Plant Innovation
(d) Production Function

Q 181. The introduction of new product with added features in the market is known as —
(a) Process Innovation (b) Product Innovation
(c) Plant Innovation (d) Production Function

Q 182. Innovation is of more importance as it helps in increasing the standard of living in the long run
(a) Process
(b) Product
(c) Plant
(d) There is no relationship between innovation processes and standard of living

TOTAL, AVERAGE AND MARGINAL PRODUCT

Q 183. ______ is the total output resulting from the efforts of all the factors of production, combined together at any time.
(a) Total Product (b) Average Product
(c) Marginal Product (d) All of the above

Q 184. is the Total Product per unit of the Variable Factor.
(a) Total Product (b) Average Product
(c) Marginal Product (d) All of the above

Q 185. ____ is the change in Total Product, for one unit change in the quantity of Variable Factor.
(a) Total Product (b) Average Product
(c) Marginal Product (d) All of the above

Q 186. __________ is the addition made to Total Product, by an additional unit of input of the Variable Factor.
(a) Total Product (b) Average Product
(c) Marginal Product (d) All of the above

Q 187. Marginal Product is —

(a) The change in Total Product, for one unit change in the quantity of Variable Factor.

(b) The addition made to Total Product, by an additional unit of input of the Variable Factor

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 188. The Marginal Product of an input is

(a) Extra product produced by one extra unit of input while other inputs are held constant

(b) Extra product produced by reducing one unit of input while other inputs are held constant

(c) Reduction in total product due to one extra unit of input while other inputs are held constant

(d) Reduction in total product by reducing one unit of input while other inputs are changing.

Q 189. 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

Q 190. If the inputs of all but one factor are held constant, then will vary with the quantity used of the Variable Factor.

(a) Total Product (b) Average Product

(c) Marginal Product (d) All of the above

Q 191. If the inputs of all but one factor are held constant, then Total Factor will —

(a) Remain constant

(b) Become zero

(c) Vary with the quantity used of the Variable Factor.

(d) Become infinity

Q 192. When 50 hours of Labour are spent, total output quantity is 2,000 units, When 55 hours of Labour are spent, total output quantity is 2,250 units. Here, Marginal Product will be —

(a) 2,250 (b) 2,000

(c) 250 (d) 50

Q 193. Suppose the first four units of a variable input generate corresponding total outputs of 150, 200, 350 and 550. The marginal product of the third unit of input is:

(a) 50 (b) 100

(c) 150 (d) 200

Q 194.

Use the following information to answer next 3 questions

Hours of Labour	Total Output	Marginal Product
0	—	—
1	100	100
2	—	80
3	240	—

What is the Total Output when 2 hours of Labour are employed?

(a) 80 (b) 100

(c) 180 (d) 200

Q 195. What is the Marginal Product of the third hour of Labour?

(a) 60 (b) 80

(c) 100 (d) 240

Q 196. What is the Average Product of the first three hours of Labour?

(a) 60 (b) 80

(c) 100 (d) 240

Let TP = Total Product, AP = Average Product and MP = Marginal Product. Use the following table and answer the next 10 Questions.

Quantity of Variable Factor	TP (in units)	AP (in units)	MP (in units)
1	1,000	A 1000	B 1000

2	C 1600	D 800	600
3	E 2100	700	F 500
4	2,100	G 525	H 0
5	I 2000	400	J -100

Find the value of "A" in the above Table.

(a) 1,000 (b) 2,000

(c) 3,000 (d) 0

Find the value of "B" in the above Table.

(a) 1,000 (b) 2,000

(c) 3,000 (d) 0

Q 199. Find the value of "C" in the above Table.

(a) 1,000 (b) 1,300

(c) 1,600 (d) 1,900

Q 200. Find the value of "D" in the above Table.

(a) 1,000 (b) 800

(c) 600 (d) 400

Q 201. Find the value of "E" in the above Table.

(a) 1,100 (b) 1,600

(c) 1,700 (d) 2,10

Q 202. Find the value of "F" in the above Table.

(a) 500 (b) 600

(c) 700 (d) 800

Find the value of "G" in the above Table.

(a) 500 (b) 525

(c) 550 (d) 575

Q 204. Find the value of "H" in the above Table.

(a) Nil (b) 1,000

(c) 2,000 (d) Cannot be calculated

Q 205. Find the value of "I" in the above Table.

(a) Nil (b) 1,000

(c) 2,000 (d) Cannot be calculated

Q 206. Find the value of "3" in the above Table.

(a) Nil (b) — 100

(c) + 100 (d) Cannot be calculated

Q 207. If Total Product = 1,00,000 units when 20,000 hours of Labour are used, then Average Product=

(a) 1,00,000 (b) 20,000

(c) 5 (d) 1,20,000

Read the Table below & answer the following 8 questions

Labour Input	Marginal Product	Total Product	Average Product
0	0	0	0
1			25
2		90	
3		120	
4		140	
5			28
6			20

If Labour Input = 1, Total Output is—

(a) 25 (b) 30

(c) 50 (d) 75

Q 209. If Labour Input = 2, Marginal Product is—

(a) 25 (b) 90

(c) 65 (d) 115

Q 210. If Labour Input = 4, output per worker is:

(a) 20 (b) 35

(c) 45 (d) 90

Q 211. If Labour Input = 6, the marginal product of labour is:

(a) 120 (b) — 20

(c) 15 (d) 10

Q 212. Output per worker is maximized at a Labour Input of:{Omit this Question}

(a) 2 (b) 4

(c) 6 (d) 8

Q 213. When Labour Input = 5, Marginal Product is—

(a) 20 (b) 120

(c) 0 (d) -120

Q 214. At what level of Labour Input are MP and AP equal?{Omit this Question }

(a) 1 (b) 2

(c) 3 (d) 4

Q 215. As quantity of the Variable Factor increases, Total Product (TP) Curve —

(a) Always increases
(b) Always decreases
(c) First increases, reaches a maximum, and then decreases.
(d) First decreases, reaches a minimum, and then increases.

If Total Product (TP) increases, Marginal Product (MP) will be —

(a) Positive (b) Negative
(c) Zero (d) Infinity

Q 217. If Total Product (TP) increases at an increasing rate, Marginal Product (MP) will be —

(a) Increasing (b) Decreasing
(c) Zero (d) Infinity

Q 218. If Total Product (TP) increases at a decreasing rate, Marginal Product (MP) will be —

(a) Increasing (b) Decreasing
(c) Zero (d) Infinity

Q 219. If Total Product (TP) is maximum, Marginal Product (MP) will be —

(a) Positive (b) Negative
(c) Zero (d) Infinity

Q 220. What is the maximum point of TP?

(a) When AP becomes zero
(b) When MP becomes zero
(c) At the intersecting point of AP & MP
(d) None of these

Q 221. If TP decreases, MP will be —

(a) Positive (b) Negative
(c) Zero (d) Infinity

Q 222. Marginal Product (MP) Curve —

(a) Is parallel to X Axis
(b) Is parallel to Y Axis
(c) First decreases, reaches a minimum, and then increases
(d) First increases, reaches a maximum, and then decreases

Q 223. Average Product (AP) Curve —

(a) Is parallel to X Axis
(b) Is parallel to Y Axis
(c) First decreases, reaches a minimum, and then increases
(d) First increases, reaches a maximum, and then decreases

Q 224. Marginal Product (MP) —

(a) Will have positive values only
(b) Will have negative values only
(c) Can be positive or zero or even negative.
(d) Can be positive or zero, but not negative.

Q 225. Average Product (AP) —

(a) Will have positive values only
(b) Will have negative values only
(c) Can be positive or zero or even negative.
(d) Can be positive or zero, but not negative.

Q 226. What is the relationship between AP and MP?

(a) AP and MP both rise first and thereafter fall
(b) MP Curves always lies half—way between AR Curve and Origin
(c) AP and MP both can be zero or negative
(d) All of these

Q 227. If Average Product (AP) Curve is depicted on a graph with Quantity on X axis —

(a) AP will not go below the X axis.
(b) AP may go below the X axis.
(c) AP cannot be depicted on the graph at all.
(d) None of the above

Q 228. Which of the following is correct?

(a) If Marginal Product is positive and falling, Total Product will rise at a decreasing rate.
(b) Total Product divided by Quantity of Variable Factor equals Average Product.
(c) Marginal Product and Average Product can be calculated from Total Product.
(d) All of the above.

Q 229. The point where MP is maximum is called —

(a) Point of Increase
(b) Point of Indifference
(c) Point of Inflexion
(d) Point of Shut—down

Q 230. When AP rises as a result quantity of variable input —
(a) MP is more than AR
(b) MP is less than AP
(c) MP = AP
(d) There is no relationship between MP and AP

Q 231. When Average Product (AP) rises as a result of an increase in the quantity of variable input —
(a) MP < AP
(b) MP = AP
(c) MP > AP
(d) There is no relationship between MP and AP

Q 232. When Average Product (AP) decreases as a result of an increase in the quantity of variable input —
(a) MP < AP
(b) MP = AP
(c) MP > AP
(d) There is no relationship between MP and AP

Q 233. If the Marginal Product of Labour is below the Average Product of Labour, it must be true that
(a) The Marginal Product of Labour is negative
(b) The Marginal Product of Labour is zero
(c) The Average Product of Labour is falling
(d) The Average Product of Labour is negative

Q 234. When Average Product (AP) is at its maximum
(a) MP < AP (b) MP = AP
(c) MP > AP (d) MP = 0

Q 235. When Marginal Product (MP) = Average Product (AP), it means that AP is —
(a) At its maximum (b) At its minimum
(c) Zero (d) Infinity

Q 236. Marginal Product (MP) Curve cuts Average Product (AP) Curve —
(a) MP = AP (b) AP is maximum
(c) MP is falling (d) All of the above

Q 237. When is Average Product at its maximum?
(a) When AP intersects MP
(b) When AP intersects TP
(c) At the Point of Inflexion
(d) All of the above

Q 238. Marginal Product (MP) Curve cuts Average Product (AP) Curve —
(a) From above
(b) From below
(c) MP does not cut AP at all
(d) Nothing can be said

Q 239. Marginal Product (MP) rises steeply, and also declines slightly earlier than Average Product (AP) Curve. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 240. 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 falling

Part C- LAW OF VARIABLE PROPORTIONS

Q 241. The Law of analyses the production function with one factor as variable, keeping quantities of other factors fixed.
(a) Returns to Scale (b) Multiple Proportions
(c) Variable Proportions (d) Fixed Proportions

Q 242. The Law of Variable Proportions analyses the with one factor as variable, keeping quantities of other factors fixed.
(a) Revenue Function
(b) Production Function

(c) Cost Function
(d) Demand and Supply Function

Q 243 The Law of Variable Proportions operates in —
(a) Medium—run (b) Short —run
(c) Long—run (d) All of the above

Q 244. In the , all factors of production cannot be increased or decreased simultaneously.
(a) Medium—run (b) Short —run
(c) Long—run (d) All of the above

Q 245. The Law of Variable Proportions is also called —
(a) Law of Proportionality
(b) Law of Diminishing Returns
(c) Law of Diminishing Marginal Physical Productivity
(d) All of the above

Q 246. The Law of Variable Proportions deals with —
(a) Output Quantities (b) Monetary Values
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 247. Which of the following is an assumption in the Law of Variable Proportions?
(a) The state of technology is constant and unchanged
(b) Only physical quantities of inputs and outputs are considered
(c) Only one factor input is considered variable, while all other factors are fixed
(d) All of the above

Q 248. Which of the following is an assumption in the Law of Variable Proportions?
(a) The Fixed Factor of production is scarce
(b) There are no perfect substitutes for the Fixed Factor
(c) Factors of Production can be used in any proportion
(d) All of the above

Q 249. Assumption which are applicable under Law of Variable Proportion are—
(a) State of technology is constant
(b) Quantities of some inputs is kept fixed
(c) Economic profitability in monetary terms is not considered
(d) All of these

Which of the following is not an assumption in the Law of Variable Proportions?
(a) There are no perfect substitutes for the Fixed Factor
(b) Factors of Production can be used in any proportion
(c) Only physical quantities of inputs and outputs are considered
(d) None of the above

Q 251. Which of the following is not an assumption in the Law of Variable Proportions?
(a) There are no perfect substitutes for the Fixed Factor
(b) Only one factor input is considered variable, while all other factors are fixed.
(c) State of Technology is improved as more output is produced
(d) Only physical quantities of inputs and outputs are considered

Q 252. The Law of Variable Proportions analyses the economic profitability of the Firm in monetary terms also. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 253. 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

Q 254. If all factors are required to be used in fixed proportions, then the Law of Variable Proportions —
(a) Will apply
(b) Will not apply at all
(c) Both (a) and (b) are true to some extent
(d) Neither (a) nor (b) is true

Q 255. As per Law of Variable Proportions, as the quantity of one input which is combined with other fixed inputs is increased, the of the Variable Input must eventually decline.

(a) Total Productivity
(b) Average Productivity
(c) Marginal Productivity
(d) All the above

Q 256. The Law of Variable Proportions come into being when—

(a) There are only two variable factors.
(b) There is a fixed factor and a variable factor.
(c) All factors are variable.
(d) Variable factors yield less.

Q 257. States that when Labour increases with capital being the same, the Marginal Productivity of Labour will increase at first but start decreasing later.

(a) Law of Equi—Marginal Returns
(b) Law of Diminishing Marginal Utility
(c) Law of Variable Proportions
(d) Law of Constant Returns

Q 258. When a Factory is working at 70% capacity, increasing of variable inputs, leads to—

(a) Increasing of output
(b) Decreasing of output according to the Law of Diminishing Returns
(c) Increasing of output up to full capacity and later decreasing of the Marginal Product according to the Law of Diminishing Returns
(d) Decreasing of output up to full capacity and later increasing of the output

Q 259. The order of stages in the Law of Variable Proportions are —

(a) Increasing Returns, Negative Marginal Returns, Diminishing Returns
(b) Increasing Returns, Diminishing Returns, Negative Marginal Returns
(c) Negative Marginal Returns, Increasing Returns, Diminishing Returns
(d) Diminishing Returns, Negative Marginal Returns, Increasing Returns

Q 260. Which of the following is not a stage in Law of Variable Proportions?

(a) Increasing Returns (b) Constant Returns
(c) Diminishing Returns (d) Negative Returns

Q 261. In the stage of Increasing Returns, Total Product (TP) —

(a) Remains constant (b) Increases
(c) Decreases (d) Becomes negative

Q 262. In the stage of Increasing Returns, Marginal Product (MP)-

(a) Remains constant
(b) Increases
(c) Decreases
(d) First increases, reaches a maximum and then decreases

Q 263. What result we get in the first stage of Law of Variable Proportions?

(a) Total Product is increasing at an increasing rate
(b) Average Product increases only till Inflexion Point
(c) (a) but not (b)
(d) Both (a) & (b)

Q 264. Which of the following is true?{Omit this Question}

(a) MP does not decrease during the First Stage
(b) TP remains positive during the First Stage
(c) AP starts declining after the Point of Inflexion
(d) All of these

Q 265. A Firm is operating at an output level, where its Total Product is increasing at an increasing rate. This implies that the Firm's

(a) Marginal Cost must be falling at an increasing rate
(b) Marginal Product is increasing at a increasing rate
(c) Average Product is increasing
(d) Both (a) and (c)

Q 266. Why does the Law of Increasing Returns operate?

(a) Full Use of Fixed Indivisible Factors
(b) Efficiency of Variable Factors
(c) Need to reach the right combination
(d) All of the above

Q 267. Which of these is a reason for the operation of Law of Increasing Returns?

(a) Specialisation of functions

(b) Division of Labour
(c) Effective use of Fixed Factor of Production
(d) All of the above

Q 268. The stage of Diminishing Returns applies from to
(a) Origin to Point where AP is maximum
(b) Point where AP is maximum to Point when TP is maximum
(c) Point when TP declines and and MP becomes negative.
(d) All the above

Q 269. The Law of Diminishing Returns —2
(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 input begins to decrease steadily.
(d) Informs a Firm whether or not to use a factor input.

Q 270. In case of law of variable proportions, 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.

Q 271. In the stage of Diminishing Returns, Total Product (TP) —
(a) Remains constant (b) Increases
(c) Decreases (d) Becomes negative

Q 272. In the stage of Diminishing Returns, Average Product (AP) —
(a) Remains constant (b) Increases
(c) Decreases (d) Becomes negative

Q 273. In the stage of Diminishing Returns, Marginal Product (MP) —
(a) First increases, reaches a maximum and then decreases
(b) Decreases
(c) Increases
(d) Remains constant

Q 274. In the stage of Diminishing Returns —
(a) MP increases but AP decreases
(b) MP decreases but AP increases
(c) MP and AP show increasing trend
(d) MP and AP show decreasing trend

Q 275. In the stage of Diminishing Returns —
(a) MP and AP remain positive
(b) MP and AP become negative
(c) MP is positive but AP becomes negative
(d) MP becomes negative but AP remains positive

Q 276. Which of the following statements show the Stage of Diminishing Returns under the Law of Variable Proportions?
(a) Marginal Product is negative
(b) Marginal Product is falling and it is negative
(c) Marginal Product is falling but it is positive
(d) None of the above

Q 277. Which of the following is a reason for the operation of the Law of Diminishing Returns?
(a) Inefficiency of Fixed Indivisible Factors
(b) Inadequacy of Fixed Indivisible Factors
(c) Indifference of Fixed Indivisible Factors
(d) Immobility of Fixed Indivisible Factors

Q 278. 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

Q 279. Law of Diminishing Returns is not relevant when—
(a) All labourers are equally efficient
(b) The Time Period is short
(c) All factory inputs are increased by the same proportion
(d) Technology remains constant

Q 280. In which stage of production are the Average Product and Marginal Product decreasing with the Marginal Product above zero (positive)?
(a) In the stage of Constant Returns
(b) In the stage of Decreasing Returns
(c) In the stage of Increasing Returns
(d) Both (a) and (c)

Q 281. During the stage of Decreasing Returns —
(a) AP is negative (b) MP is decreasing
(c) MP is negative (d) Both (a) and (b)

Q 282. Diminishing Marginal Returns implies —
(a) Decreasing Average Variable Costs
(b) Decreasing Marginal Costs
(c) Increasing Marginal Costs
(d) Decreasing Average Fixed Costs

Q 283. The Third Stage of Law of Variable Proportion is known as—
(a) Law of Negative Returns
(b) Law of Decreasing Returns
(c) Law of Diminishing Returns
(d) All of these

Q 284. The stage of Negative Marginal Returns applies from
____________________to________________
(a) Origin to Point where AP is maximum
(b) Point where AP is maximum to Point when TP is maximum
(c) Point when TP declines and and MP becomes negative.
(d) All the above

Q 285. In the stage of Negative Marginal Returns, Total Product (TP) —
(a) Remains constant (b) Increases
(c) Decreases (d) Remains at zero.

Q 286. In the stage of Negative Marginal Returns, Average Product (AP) —
(a) Remains constant (b) Decreases
(c) Becomes negative (d) Increases

Q 287. In the stage of Negative Marginal Returns, Marginal Product (MP) —
(a) Increases
(b) Remains constant
(c) Decreases but does not become negative
(d) Becomes negative

Q 288. The Law of Negative Marginal Returns operates because the Variable Factor is in relation to the Fixed Factor of Production.
(a) Optimal (b) Adequate
(c) Excessive (d) Irrelevant

Q 289. In which of the following situations, the Law of Variable Proportions will not apply?
(a) Improvement in technology
(b) When all factors are proportionately varied
(c) Where the factors must be used in fixed proportions to yield the product
(d) All of the above

Q 290. In which of the following situations, the Law of Variable Proportions will not apply?
(a) Scarcity of Fixed Factor of Production
(b) Availability of Perfect Substitutes for the Fixed Factor
(c) Change in proportions in which Factors are used
(d) Same level of technology

Q 291. A Rational Producer will operate in —
(a) Stage I
(b) Stage II
(c) Stage III
(d) All of the above

Q 292. A Rational Producer will not operate in —
(a) Stages I and II (b) Stages II and III
(c) Stages III and I (d) All of the above

Q 293. Stages I and III are called —
(a) Economic Absurdity (b) Economic Stability
(c) Economic Equilibrium (d) All of the above

Q 294. Stages I and III are called —
(a) Economic Achievement

(b) Economic Nonsense
(c) Economic Optimality
(d) Economic Rationality

Q 295. A Rational Producer will not operate in Stage I due to the reason that —
(a) There is more scope for making the best use of the Fixed Factor
(b) Total Output still shows an increasing trend
(c) Optimal Combination of Fixed and Variable Factors is not yet achieved
(d) All of the above

Q 296. A Rational Producer will not operate in Stage III due to the reason that—
(a) The Fixed Factor has become over—used and inefficient
(b) There is a reduction in Total Output
(c) The MP of the Variable Factor is negative
(d) All of the above

Q 297. A Rational Producer intends to work in—
(a) Stage of Constant Returns
(b) Stage of Increasing Returns
(c) Stage of Diminishing Returns
(d) Stage of Negative Returns

Q 298. In which stage of production would a rational entrepreneur like to operate?
(a) Stage 1 where MP is maximum
(b) Stage 2 where both MP and AP are decreasing, but both are positive
(c) Stage 3 where MP is negative
(d) Either Stage 2 or 3

Part D -LAW OF RETURNS TO SCALE

Q 299. The Law of Returns to Scale operates in —
(a) Medium—run (b) Short —run
(c) Long—run (d) All of the above

Q 300. In the, the quantities of all factors of production can be increased or decreased simultaneously.
(a) Medium—run (b) Short —run
(c) Long—run (d) All of the above

Q 301. The Law of Returns to Scale deals with —
(a) Output Quantities (b) Monetary Values
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 302. Under the Law of Returns to Scale, is constant.
(a) Output Quantities
(b) Quantities of Variable Factors of Production
(c) Quantities of Variable and Fixed Factors of Production
(d) Proportion between different Factors of Production

Q 303. Law of Returns to Scale indicates the responsiveness of total product when all inputs
(a) Remain same
(b) Are changed drastically
(c) Are changed marginally
(d) Are changed proportionately

Q 304. Change in Scale means that all Factors of Production are increased or decreased —
(a) In different proportions
(b) In the same proportion
(c) To infinity
(d) None of the above

Q 305. When there is an increase in all factors of production together in the same ratio, —(a) increases at first, (b) becomes constant thereafter, and (c) starts decreasing beyond a certain level.
(a) Total Product
(b) Average Product
(c) Marginal Product
(d) All of the above

Q 306. In the initial stages, when there is an increase in scale, there is increase in output.
(a) Zero
(b) Proportionate
(c) Less than proportionate
(d) More than proportionate

Q 307. In the initial stages, there will be increasing returns to scale, due to —
(a) Indivisibility of Factors
(b) Specialization in Factors
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 308. In the initial stages, there will be increasing returns to scale, due to —

(a) Economies in operations
(b) Diseconomies in operations
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 309. In the very beginning of production, generally the Increasing Returns to scale is found because—

(a) Input is increased
(b) Plant and Machinery will be new
(c) Production Problems are less
(d) Economies of Scale

Q 310. The above data is an example of:

(a) Decreasing returns to scale.
(b) Constant returns to scale.
(c) Increasing returns to scale.
(d) Positive fixed costs.

Q 311. If as a result of 50% increase in all inputs, the output rises by 75%, this is a case of:

(a) Increasing Returns to a Factor
(b) Increasing Returns to Scale
(c) Constant Returns to a Factor
(d) Constant Returns to Scale

Q 312. In which of the following cases does output double with the doubling of all inputs?

(a) Constant Returns to Scale
(b) Decreasing Returns to Scale
(c) Increasing Returns to Scale
(d) Increasing as well as decreasing returns to Scale

Q 313. If a change in scale inputs leads to a proportional change in the output, it is a case of—

(a) Increasing Returns to Scale
(b) Constant Returns to Scale
(c) Diminishing Returns to Scale
(d) Variable Returns to Scale

Q 314. You are given the following data:

Factor	Total Output
0	0
1	15
2	30
3	45
4	60
5	75

The above data is an example of:

(a) Constant Returns to Scale.
(b) Decreasing Returns to Scale.
(c) Increasing Returns to Scale.
(d) Globalization.

Q 315. If one unit of labour and one unit of capital give 200 units of output, two units of labour and two units of capital give 400 units of output and 5 units of labour and five units of capital give 1000 units of output then this is a case of:

(a) Constant Returns to Scale.
(b) Increasing Returns to Scale.
(c) Decreasing Returns to Scale.
(d) All of these.

Q 316. After the stages of constant returns to scale, the Firm will start experiencing —

(a) Still Increasing Returns to Scale
(b) Constant Returns to Scale
(c) Diminishing Returns to Scale
(d) None of the above

Q 317. If Decreasing Returns to Scale are present, then if all inputs are increased by 10% then

(a) Output will also decrease by 10%
(b) Output will increase by 10%
(c) Output will increase by less than 10%
(d) Output will increase by more than 10%

Q 318. Which a view to increase his production Hari Haran a manufacturer of shoes, increases all the factors of production in his unit by 100%. But at the end of year he finds that instead of an increase of 100%, his production has increased by only 80%. Which law of returns to scale is operating in this case

(a) Increasing returns to scale
(b) Decreasing returns to scale
(c) Constant returns to scale
(d) None of the above

Q 319. In electricity generation plants, when the plant grows too large risks of plant failure with regard to

output increase disproportionately. Hence we are talking about which concept of returns to scale?
(a) Constant Returns to Scale
(b) Increasing Returns to Scale
(c) Decreasing Returns to Scale
(d) Balanced Returns to Scale

Q 320. Linear Homogeneous Production function is based on
(a) Increasing Returns to Scale
(b) Decreasing Returns to Scale
(c) Constant Returns to Scale
(d) None.

Q 321. Beyond a certain extent, the Firm will start experiencing decreasing returns to scale, due to
(a) Economies in operations
(b) Diseconomies in operations
(c) Both (a) and (b)
(d) Neither (a) nor (b) (a) as the Firm the Size of its Plant

Q 322. Economies and Diseconomies in operations can be
(a) Internal .
(b) External
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 323. Internal Economies and Diseconomies are dependent on —
(a) Output level of individual Firms
(b) Output level of the entire industry
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 324. External Economies and Diseconomies are dependent on —
(a) Output level of individual Firms
(b) Output level of the entire industry
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 325. External economies can be achieved through—
(a) Foreign trade only
(b) Extension of transport & transport credit* facility
(c) Superior managerial skills
(d) External assistance

Q 326. External Diseconomies may lead to
(a) Decrease in cost of technology
(b) External Assistance
(c) Increase in the price of factors of production
(d) None of the above

Q 327. ______ economies result from the use of specialized equipment and modern techniques of production.
(a) Marketing (b) Selling
(c) Managerial (d) Production

Q 328. Which of the following is an important ingredient of Selling Economies?
(a) Advertising Economies
(b) Inventory Economies
(c) Transportation Economies
(d) Storage Economies

Q 329. Economies are associated with the distribution of the product of a Firm.
(a) Manufacturing (b) Inventory
(c) Production (d) Selling

Q 330. Difficulties of management, co—ordination and control due to bigger Plant Size is an example of —
(a) Internal Economies of Scale
(b) Internal Diseconomies of Scale
(c) External Economies of Scale
(d) External Diseconomies of Scale

Q 331. Availability of cheaper Raw Materials and Capital Equipment in the long—run constitutes —
(a) Internal Economies of Scale
(b) Internal Diseconomies of Scale
(c) External Economies of Scale
(d) External Diseconomies of Scale

Q 332. Increase in Prices of Factors of Production due to expansion in industry creates —
(a) Internal Economies of Scale
(b) Internal Diseconomies of Scale
(c) External Economies of Scale
(d) External Diseconomies of Scale

Q 333.

Discovery of new technical knowledge and improvements in technology leads to —

(a) Internal Economies of Scale
(b) Internal Diseconomies of Scale
(c) External Economies of Scale
(d) External Diseconomies of Scale

Q 334. Management Efficiency and Productivity due to creation of different specialised functional departments is an example of —

(a) Internal Economies of Scale
(b) Internal Diseconomies of Scale
(c) External Economies of Scale
(d) External Diseconomies of Scale

Q 335. Growth of Ancillary Industries supplying related goods and services is an example of —

(a) Internal Economies of Scale
(b) Internal Diseconomies of Scale
(c) External Economies of Scale
(d) External Diseconomies of Scale
(a) External Diseconomies of Scale

Q 336. A large Firm can offer better security to Bankers and obtain credit easily. This creates ________________ for such Firm.

(a) Internal Economies of Scale
(b) Internal Diseconomies of Scale
(c) External Economies of Scale
(d) External Diseconomies of Scale

Q 337. When a large Firm makes bulk purchase and obtains its Raw Materials at lower prices than a small size Firm, the large Firm is said to have achieved —

(a) Internal Economies of Scale
(b) Internal Diseconomies of Scale
(c) External Economies of Scale
(d) External Diseconomies of Scale

Q 338. Internal Economies of Scale can arise in __________ aspects.

(a) Technological (b) Managerial
(c) Financial (d) All of the above

Q 339. Internal and External Economies and Diseconomies of Scale has its impact on —

(a) Long Run Average Cost (LAC) Curve
(b) Short Run Average Cost (SAC) Curve
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 340. Due to External Economies of Scale, the Long Run Average Cost (LAC) Curve —

(a) Shifts inward
(b) Remains constant
(c) Shifts outward
(d) Is not affected at all

Q 341. Due to External Diseconomies of Scale, the Long Run Average Cost (LAC) Curve —

(a) Shifts inward (b) Remains constant
(c) Shifts outward (d) Is not affected at all

Q 342. If the LAC curve falls as output expands, this is due to —

(a) Law of Diminishing Returns
(b) Economies of Scale
(c) Law of Variable Proportions
(d) Diseconomies of Scale

Q 343. Identify the correct statement

(a) Average Product is at its maximum when Marginal Product is equal to Average Product
(b) Law of Increasing Returns to Scale relates to the effect of changes in factor proportions
(c) Economies of Scale arise only because of invisibilities of factor proportions
(d) Internal Economies of scale can accrue only to the exporting sector

Q.	Ans	Q	Ans	Q	Ans	Q	Ans
1	A	51	B	101	B	151	B
2	B	52	B	102	C	152	B
3	D	53	A	103	B	153	B
4	A	54	B	104	B	154	C
5	A	55	A	105	D	155	C
6	C	56	B	106	D	156	B
7	D	57	D	107	A	157	D
8	B	58	B	108	C	158	D
9	C	59	A	109	C	159	C
10	C	60	B	110	A	160	C
11	B	61	A	111	B	161	A
12	A	62	A	112	A	162	C
13	C	63	D	113	C	163	B
14	D	64	C	114	A	164	A
15	A	65	B	115	C	165	B
16	A	66	C	116	D	166	A
17	B	67	A	117	B	167	B
18	D	68	C	118	C	168	A
19	D	69	A	119	D	169	A
20	A	70	C	120	D	170	B
21	A	71	A	121	C	171	D
22	B	72	B	122	B	172	D
23	C	73	A	123	C	173	B
24	D	74	D	124	D	174	A
25	A	75	A	125	B	175	B
26	B	76	C	126	D	176	B
27	B	77	C	127	A	177	C
28	A	78	C	128	C	178	B
29	C	79	C	129	A	179	A
30	D	80	D	130	B	180	A
31	B	81	C	131	D	181	B
32	C	82	C	132	B	182	B
33	C	83	A	133	D	183	A
34	D	84	A	134	D	184	B
35	D	85	C	135	C	185	C
36	C	86	D	136	A	186	C
37	A	87	A	137	D	187	C
38	B	88	B	138	C	188	A
39	C	89	C	139	B	189	B
40	D	90	C	140	A	190	D
41	A	91	C	141	A	191	C
42	D	92	D	142	C	192	D
43	B	93	C	143	A	193	C
44	D	94	A	144	B	194	C
45	D	95	B	145	A	195	A
46	A	96	D	146	A	196	B
47	A	97	C	147	B	197	A
48	D	98	D	148	A	198	A
49	A	99	C	149	D	199	C
50	B	100	D	150	B	200	C

Q.	Ans	Q	Ans	Q	Ans
201	D	251	C	301	A
202	A	252	B	302	D
203	B	253	B	303	D
204	A	254	B	304	B
205	C	255	C	305	C
206	B	256	B	306	D
207	C	257	C	307	C
208	A	258	C	308	A
209	C	259	B	309	D
210	B	260	B	310	C
211	B	261	B	311	B
212	A	262	D	312	A
213	C	263	C	313	B
214	A	264	B	314	A
215	C	265	D	315	A
216	A	266	D	316	C
217	A	267	D	317	C
218	B	268	B	318	B
219	C	269	C	319	C
220	B	270	B	320	C
221	B	271	B	321	B
222	D	272	C	322	C
223	D	273	B	323	A
224	C	274	D	324	B
225	D	275	A	325	B
226	A	276	C	326	C
227	A	277	B	327	D
228	D	278	A	328	A
229	C	279	C	329	D
230	A	280	B	330	B
231	C	281	B	331	C
232	A	282	C	332	D
233	C	283	A	333	C
234	B	284	C	334	A
235	A	285	C	335	C
236	D	286	B	336	A
237	A	287	D	337	A
238	A	288	C	338	D
239	A	289	D	339	A
240	D	290	B	340	A
241	C	291	B	341	C
242	B	292	C	342	B
243	B	293	A	343	A
244	B	294	B		
245	D	295	D		
246	A	296	D		
247	D	297	C		
248	D	298	B		
249	D	299	C		
250	D	300	C		

Chapter – 3B – Cost & Revenue concept

COST ANALYSIS AND COST FUNCTION

Q 1. Cost Analysis is the study of behaviour of in relation to one or more production criteria.

(a) Prices and Revenue (b) Profits
(c) Costs (d) Output Quantity

Q 2. Cost Analysis is the study of behaviour of Cost, in relation to —

(a) Selling Prices
(b) Profits
(c) Total Revenue
(d) One or more Production Criteria

Q 3. For Cost Analysis purposes, the Production Criteria may be —

(a) Quantity of output
(b) Scale of operations
(c) Prices of factors of production
(d) All of the above

Q 4. Cost Analysis is concerned with of production.

(a) Financial aspects (b) Physical aspects
(c) Either (a) or (b) (d) Both (a) and (b)

Q 5. Cost Function refers to the mathematical relationship between cost of a product and the various determinants of Cost. This statement is

(a) True (b) False
(c) Partially True (d) None of the above

Q 6. A Cost Function deals with —

(a) Total Cost (b) Cost per unit
(c) Either (a) or (b) (d) Neither (a) nor (b)

Q 7. In a Cost Function, the Total Cost or Cost per unit is a/an —

(a) Dependent Variable
(b) Independent Variable
(c) Either (a) or (b)
(d) Neither (a) nor (b)

Q 8. In a Cost Function, the Output Quantity is a/an-

(a) Dependent Variable
(b) Independent Variable
(c) Either (a) or (b)
(d) Neither (a) nor (b)

Q 9. In a Cost Function, the Scale of Operations is a/an-

(a) Dependent Variable (b) Independent Variable
(c) Either (a) or (b) (d) Neither (a) nor (b)

Q 10. In a Cost Function, the Price of Factors of Production is a/an-

(a) Dependent Variable (b) Independent Variable
(c) Either (a) or (b) (d) Neither (a) nor (b)

Q 11. Identify the Dependent Variable in a Cost Function from the following.

(a) Quantity of Output
(b) Scale of Operations
(c) Total Cost
(d) Price of Factors of Production

Q 12. Identify the Dependent Variable in a Cost Function from the following.

(a) Efficiency
(b) Level of Capacity utilisation
(c) Technology
(d) Cost per unit

Q 13. Identify the Independent Variable in a Cost Function from the following.

(a) Time Period under study
(b) Cost per unit
(c) Total Cost
(d) None of the above

Q 14. Cost Functions are Derived Functions. They are derived from —

(a) Demand Function
(b) Supply Function
(c) Isoquant Function
(d) Production Function

Q 15. A Cost Function determines the behaviour of Costs with change in —

(a) Output (b) Input
(c) Technology (d) Wages

Q 16. *The Cost Function indicates the functional relationship between Total Cost and —*

(a) Total Input (b) Fixed Cost
(c) Total Output (d) Variable Cost

Q 17. *Which of the following is not a determinant of the Firm's Cost Function?*

(a) Production Function
(b) Price of Labour
(c) Rent paid for use of Building
(d) Price of the Firm's Output

Q 18. *Functional Relationship between Output and the Long Run Cost of Production is known as —*

(a) Cost Function
(b) Long Run Cost Function
(c) Short Run Cost Function
(d) Output Function

Q 19. *The Functional Relationship between Output and the Short Run Cost of Production is known as —*

(a) Cost Function
(b) Long Run Cost Function
(c) Short Run Cost Function
(d) Output Function

Q 20. *Which of the following statements regarding the Long Run Cost Function is not true?*

(a) The Firm adjusts Factors of Production to meet the market demand
(b) Firms identify a combination that gives maximum output at the lowest Cost
(c) Inputs are chosen for producing a desired level of output
(d) All the inputs in the long—run are fixed

Q 21. *Expansion of Scale of operation forms a part of Cost Function.*

(a) Long run (b) Short run
(c) Fixed (d) Both (b) and (c)

Q 22. *Which of the following statements regarding Short and Long Run Cost Functions is not true?*

(a) A Variable Input varies according to the quantity of output to be produced
(b) In the Short Run, one or more of the inputs of the production process is fixed
(c) In the Long Run, all the inputs are fixed
(d) In the Long Run there are no restrictions on the resource allocation in the production process.

Q 23. *A Product can be produced using two input combinations A and B. Combination A takes 2 units of Labour and 8 units of Capital. Combination B takes 3 units of Labour and 5 units of Capital, what is the Marginal Rate of Technical Substitution of Labour for Capital?*

(a) 0 (b) 2
(c) 3 (d) 5

EXPLICIT AND IMPLICIT COSTS

Q 24. *Costs which involve payment made by the Entrepreneur to providers of other factors of production are called —*

(a) Explicit Cost (b) Implicit Cost
(c) Variable Cost (d) Fixed Cost

Q 25. *The Cost that a Firm incurs in hiring or purchasing any Factor of Production is referred to as —*

(a) Explicit Cost (b) Implicit Cost
(c) Variable Cost (d) Fixed Cost

Q 26. *___ can be defined as the Cost that involve actual payment to other parties.*

(a) Implicit Costs (b) Explicit Costs
(c) Hidden Costs (d) Opportunity Costs

Q 27. *Which of the following is an example of an 'Explicit Cost"?*

(a) Wages a Proprietor could have made by working as an employee of a large Firm
(b) Income that could have been earned in alternative uses by the resources owned by the Firm
(c) Payment of Wages by the Firm
(d) Normal Profit earned by a Firm

Q 28. *Explicit Costs are also known as —*

(a) Out—of—Pocket Costs
(b) Outlay Costs
(c) Accounting Costs
(d) All of the above

Q 29. Which of the following does not relate to Explicit Costs?
(a) Out—of—Pocket Costs
(b) Outlay Costs
(c) Opportunity Costs
(d) Accounting Costs

Q 30. Which of the following Costs is included and recorded in the books of accounts?
(a) Imputed Costs (b) Opportunity Costs
(c) Notional Costs (d) Explicit Costs

Q 31. Explicit Costs are used for purposes.
(a) Accounting and Reporting
(b) Cost Control
(c) Decision Making
(d) All of the above

Q 32. Costs which do not involve any cash payment to outsiders are called —
(a) Explicit Cost (b) Implicit Cost
(c) Variable Cost (d) Fixed Cost

Q 33. are the value of foregone opportunities that do not involve any physical cash payment.
(a) Implicit Costs (b) Explicit Costs
(c) Hidden Costs (d) Actual Costs

Q 34. An Implicit Cost can be defined as the—
(a) Payment to the non—owners of the Firm for the resources they supply
(b) Money payment which the self—employed resources could have earned in their best alternative employment
(c) Costs which the Firm incurs but does not disclose
(d) Costs which do not change over a period of time

Q 35. Which of the following is an example of an "Implicit Cost"?
(a) Interest that could have been earned on retained earnings used by the Firm to finance expansion
(b) Payment of Rent by the Firm for the building in which it is housed
(c) Interest Payment made by the Firm for funds borrowed from a Bank
(d) Payment of Wages by the Firm

Q 36. Implicit Costs are also known as —
(a) Notional Costs (b) Opportunity Costs
(c) Imputed Costs (d) All of the above

Q 37. ________ involve subjective estimation.
(a) Implicit Costs (b) Outlay Costs
(c) Out—of—Pocket Cost (d) Accounting Costs

Q 38. An entrepreneur who manages his Firm has to forego his salary, which he could have earned if he had worked elsewhere. The foregone Cost is known as —
(a) Implicit Costs (b) Explicit Costs
(c) Hidden Costs (d) Actual Costs

Q 39. Which of the following Costs does not include the contractual cash payments which the Firm makes to other Factor Owners for purchasing or hiring various factors?
(a) Private Costs (b) Variable Costs
(c) Accounting Costs (d) Implicit Costs

Q 40. Implicit Costs are used for purposes.
(a) Accounting and Reporting
(b) Cost Control
(c) Decision Making
(d) All of the above

Q 41. If own people (e.g. family members) are employed in the Firm, without paying them any reward for their work, Labour Cost is an —
(a) Implicit Cost (b) Explicit Cost
(c) Hidden Cost (d) Undisclosed Cost

Q 42. If Capital is borrowed and used in the business, Interest on Capital is —
(a) Implicit Cost (b) Explicit Cost
(c) Hidden Cost (d) Undisclosed Cost

Q 43. If Entrepreneur employs his own funds as Capital, then Interest is —
(a) Implicit Cost (b) Explicit Cost
(c) Hidden Cost (d) Undisclosed Cost

Q 44. When Entrepreneur himself manages the business, the reward for Entrepreneurial Ability (i.e. Profit) is an —
(a) Implicit Cost (b) Explicit Cost

(c) Hidden Cost (d) Undisclosed Cost

Q 45. Direct costs are

(a) Traceable costs (b) Indirect costs

(c) Implicit costs (d) Explicit costs

Q 46. Suppose the total cost of production of a commodity X is 1,25,000 out of which implicit cost 35,000 and normal profit is 25,000. What would be the explicit cost of commodity?

(a) 90,000 (b) 65,000

(c) 1,00,000 (d) 60,000

ACCOUNTING COSTS AND ECONOMIC COSTS

Q 47. Accounting Cost equals —

(a) Explicit Cost (b) Implicit Cost

(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 48. Cost incurred in purchasing the Factor of Production is known as —

(a) Accounting Cost (b) Economic Cost

(c) Mar ginal Cost (d) Implicit Cost

(e) Neither (a) nor (b)

Q 49. Economic Cost includes—

(a) Accounting Cost + Non—Accounting Cost

(b) Fixed Cost + Variable Cost

(c) Explicit Cost + Implicit Cost

(d) Short Run Cost + Long Run Cost

Q 50. Economic Cost includes—

(a) Accounting Cost + Explicit Cost

(b) Accounting Cost + Implicit Cost

(c) Fixed Cost + Variable Cost

(d) Accounting Cost + Non—Accounting Cost

Q 51. Economic Cost includes —

(a) Wages paid to Workers / Labourers

(b) Rent for Land and Building used in business

(c) Normal Rate of Profit in the business

(d) All of the above

Q 52. Which of the following are considered as Economic Cost?

(a) Normal Return on money Capital invested

(b) Wages or Salary of the Entrepreneur

(c) Interest on the Capital invested

(d) All of the above

Q 53. __________ includes all payments paid to Factors of Production and Opportunity Cost.

(a) Implicit Costs

(b) Explicit Costs

(c) Economic Costs

(d) Accounting Costs

Q 54. Reward for Entrepreneurial Ability (i.e. Normal Profit in the business) is included in —

(a) Economic Cost

(b) Accounting Cost

(c) Explicit Cost

(d) Undisclosed Cost

Q 55. Which of the following is true regarding Economic Cost and Accounting Cost?

(a) Economic Cost = Accounting Cost

(b) Economic Cost > Accounting Cost

(c) Economic Cost < Accounting Cost

(d) None of the above

Q 56. The difference between Economic Cost and Accounting Cost is equal to —

(a) Explicit Cost

(b) Implicit Cost

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 57. Which of the following is true regarding Economic Cost and Accounting Cost?

(a) Economic Cost less Accounting Cost = Explicit Cost

(b) Economic Cost less Accounting Cost = Implicit Cost

(c) Accounting Cost less Economic Cost = Explicit Cost

(d) Accounting Cost less Economic Cost = Implicit Cost

Q 58. When Total Revenue is less than Accounting Costs, it means that the Firm —

(a) Has No—Profit—No—Loss

(b) Earns Normal Profits

(c) Earns more than Normal Profits (i.e. Super—Normal Profits)

(d) Incurs Losses

Q 59. When Total Revenue is less than Accounting Costs, it means that the Firm incurs Losses —
(a) In the accounting sense
(b) In the economic sense
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 60. When Total Revenue equals Economic Costs, it means that the Firm —
(a) Has No—Profit—No—Loss
(b) Earns Normal Profits
(c) Earns more than Normal Profits (i.e. Super—Normal Profits)
(d) Incurs Losses in the accounting sense

Q 61. When Total Revenue exceeds Economic Costs it means that the Firm —
(a) Has No—Profit—No—Loss
(b) Earns Normal Profits
(c) Earns more than Normal Profits (i.e. Super—Normal Profits)
(d) Incurs Losses

Q 62. When Total Revenue is less than Economic Costs, it means that the Firm —
(a) Incurs Losses in the economic sense
(b) Earns Normal Profits
(c) Earns more than Normal Profits (i.e. Super—Normal Profits)
(d) Incurs Losses in the accounting sense

Q 63. Economic Profits are —
(a) Difference between Total Revenue, and Total Implicit and Explicit Costs
(b) Difference between Total Revenue and Total Economic Costs
(c) Zero in a perfectly competitive industry in the long—run
(d) All the above

Q 64. If there are Implicit Costs of Production —
(a) Economic Profit will be equal to Accounting Profit.
(b) Economic Profit will be less than Accounting Profit.
(c) Economic Profits will be zero.
(d) Economic Profit will be more than Accounting Profit.

Q 65. 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

OPPORTUNITY COSTS

Q 66. Opportunity Cost refers to —
(a) Cost of opportunity foregone
(b) Comparison between the policy that was chosen and the policy that was rejected
(c) Costs relating to sacrificed alternatives
(d) All of the above

Q 67. The Cost of one thing in terms of the alternative given up is known as —
(a) Production Cost (b) Physical Cost
(c) Real Cost (d) Opportunity Cost

Q 68. Opportunity Costs are a result of —
(a) Technology obsolescence
(b) Overproduction
(c) Scarcity
(d) Abundance of resources

Q 69. Opportunity Costs arise only when resources are —
(a) Scarce
(b) Restricted in availability
(c) Available only to a limited extent
(d) All of the above

Q 70. If a resource can be put only to a particular use, then, Opportunity Costs —
(a) Are applicable and quantifiable
(b) Are applicable but not quantifiable
(c) Are not applicable at all
(d) None of the above

Q 71. Outlay Costs—

(a) Involve cash payment
(b) Do not involve any cash payment
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 72. Opportunity Cost is —

(a) Recorded in books of accounts
(b) Not recorded in books of accounts
(c) Sometimes (a) sometimes (b)
(d) Neither (a) nor (b)

Q 73. Opportunity Costs are used for ____ purposes

(a) Accounting and Reporting
(b) Cost Control
(c) Decision Making
(d) All of the above

Q 74. Which of the following is not true with reference to Opportunity Cost?

(a) It is the value of the next best use for an economic good
(b) It is the value of a sacrificed alternative
(c) It is useful in decision—making
(d) It does not take into consideration, the cost of time

Q 75. Cost is the Total Additional Cost that a Firm has to incur, as a result of implementing a major managerial decision.

(a) Sunk (b) Incremental
(c) Opportunity (d) Marginal

Q 76. Incremental Cost equals —

(a) Additional Variable Costs only
(b) Additional Fixed Costs only
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 77. Which of the following statement is true?

(a) Marginal Cost is a sub—set of Incremental Cost
(b) Incremental Cost is sub—set of Marginal Cost
(c) Marginal Cost is a sub—set of Sunk Cost
(d) Sunk Cost is a sub—set of Incremental Cost

Q 78. Cost is not relevant for Decision—Making

(a) Economic (b) Opportunity
(c) Sunk (d) Incremental Cost

Q 79. Which of the following statement best describes Sunk Costs?

(a) Costs which are incurred in the past
(b) Cost incurred by the Firm as result of bankruptcy of one of its Creditors
(c) Cost incurred by the Firm as a result of the fire that broke into one of the Firm's Godown.
(d) Setting off the losses that the Firm incurred in the previous years

Q 80. Which of the following is correct?

(a) Firms that earn Accounting Profits are economically profitable.
(b) Opportunity Cost plus Accounting Cost equals Economic Cost.
(c) When a Firm's Demand Curve slopes down, Marginal Revenue will rise as output rises.
(d) Firms increase profits by selling more output than their rivals.

Q 81. Suppose you find 100. If you choose to use 100 to go to a football match, your opportunity cost of going to the game is

(a) nothing, because you found the money.
(b) Only The value of your time spent at the game + The Expected Normal Interest / Return on 100.
(c) 100 (because you could have used the 100 to buy other things) plus the value of your time spent at the game, plus the cost of the dinner you purchased at the game.
(d) 100 (because you could have used the 100 to buy other things).

Q 82. ____ are readily identified and are traceable to a particular product, service, operation or plant.

(a) Direct Costs
(b) Indirect Costs
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 83. ________ are not readily identified nor visibly traceable to specific goods, services, operations, etc.

(a) Direct Costs (b) Indirect Costs
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 84. Accounting Process recognizes —

(a) Direct Costs

(b) Indirect Costs

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Read the following paragraph and answer the following four questions.

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

Q 85. The accounting cost at Nicole's pottery factory is

(a) 25000 (b) 50000

(c) 80000 (d) 75000

Q 86. The economic cost at Nicole's factory is:

(a) 75000 (b) 70000

(c) 80000 (d) 7 30000

Q 87. The accounting profit at Nicole's pottery factory is:

(a) 30000 (b) 50000

(c) 80000 (d) 75000

Q 88. The economic profit at Nicole's factory is:

(a) fi 75000 (b) 35000

(c) fi 80000 (d) 30000

FIXED AND VARIABLE COSTS

Q 89. _____ are costs that do not vary with output, upto a certain level of activity.

(a) Variable

(b) Fixed

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 90. Fixed Cost can be defined as —

(a) Which does not change with output

(b) Which changes with Sales

(c) Which changes proportionately with output

(d) All of the above

Q 91. Fixed Costs are —

(a) Period—related

(b) Product—related

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 92. Fixed cost Costs are a function of —

(a) Output

(b) Time

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 93. Cost must be paid even if the Firm's level output is zero.

(a) Variable (b) Direct

(c) Incremental (d) Fixed

Q 94. If a Firm produces zero output in the short period —

(a) Its Total Cost will be zero

(b) Its Variable Cost will be positive

(c) Its Fixed Cost will be positive

(d) Its Average Cost will be zero -

Q 95. As output increases, Total Fixed Cost —

(a) Decreases (b) Increases

(c) Remains constant (d) Becomes zero

Q 96. Some portion of Fixed Costs need not be incurred when operations are suspended. These are called —

(a) Avoidable Fixed Costs

(b) Committed Fixed Costs

(c) Variable Costs

(d) Semi—Variable Costs

Q 97. Some portion of Fixed Costs cannot be avoided even when operations are suspended. These are called —

(a) Discretionary Fixed Costs

(b) Committed Fixed Costs

(c) Variable Costs

(d) Semi—Variable Costs

Q 98. Which of the following is not a Fixed Cost?

(a) Payment of Interest on Borrowed Capital

(b) Charges for Fuel and Electricity

(c) Depreciation Charges on Equipment and Buildings
(d) Contractual Rent for Equipment of Building

Q 99. The following are some Costs incurred by a Clothing Manufacturer. State which among them will be considered as Fixed Cost.
a) Cost of Cloth
b) Piece Wages paid to Workers
c) Depreciation on Machines owing to time
d) Cost of Electricity for running machines

Q 100. ____ are costs that change, based on the level of output.
(a) Variable (b) Fixed
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 101. Variable Costs are —
(a) Period—related (b) Product—related
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 102. Variable Costs are a function of —*
(a) Output (b) Time
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 103. _____Cost must be incurred only when the Firm's produces output.
(a) Variable (b) Fixed
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 104. Variable Costs are incurred only when production takes place. So, they are in the nature of —
(a) Discretionary Costs (b) Committed Costs
(c) Fixed Costs (d) Semi—Variable Costs

Q 105. All Variable Costs are avoidable or discretionary in nature. This statement is —
(a) True (b) False
(c) Partially True (d) Nothing can be said

Q 106. As output increases, Total Variable Cost —
(a) Decreases (b) Increases
(c) Remains constant (d) Becomes zero

Q 107. Which Cost increases continuously with the increase in production?
(a) Average Cost (b) Marginal Cost
(c) Fixed Cost (d) Variable Cost

Q 108. Total Variable Costs always vary proportionately with output. This statement is —
(a) True
(b) False
(c) Partially True
(d) Nothing can be said

Q 109. Over certain ranges of production Variable Costs vary less or more than proportionately depending on the utilisation of fixed facilities and resources during the production process. This statement is —
(a) True
(b) False
(c) Partially True
(d) Nothing can be said

MARGINAL COSTS

Q 110. Marginal Cost changes due to change in Cost
(a) Variable (b) Fixed
(c) Total (d) Average

Q 111. _______is the addition made to the total cost by production of an additional unit of output.
(a) Fixed Cost (b) Variable Costs
(c) Total Costs (d) Marginal Costs

Q 112. Marginal Cost can be defined as —
(a) Change in Average Variable Cost divided by Change in Total Output
(b) Change in Average Fixed Cost divided by Change in Total Output
(c) Change in Total Fixed Cost divided by Change in Total Output
(d) Change in Total Cost due to Change in Total Output by one additional unit.

Q 113. _____ Costs are important in short term decision making of the Firm, to determine the output at which profits can be maximized.
(a) Fixed (b) Sunk
(c) Opportunity (d) Marginal

Q 114. With which of the following is the concept of Marginal Cost closely related?

(a) Variable Cost (b) Fixed Cost
(c) Opportunity Cost (d) Economic Cost

Q 115. Marginal Cost is independent of Fixed Cost. This statement is —

(a) True (b) False
(c) Partially True (d) Nothing can be said

Q 116. Marginal Cost is independent of Variable Cost. This statement is —

(a) True (b) False
(c) Partially True (d) Nothing can be said

Q 117. Which of the following will affect Marginal Costs?

(a) Variable Costs (b) Output Quantity
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 118. Which of the following will not affect Marginal Costs?

(a) Variable Costs (b) Output Quantity
(c) Fixed Costs (d) All of the above

Q 119. TCn TCn_i = which cost function?

(a) Marginal Cost (b) Average Cost
(c) Total Cost (d) None of the above

Q 120. Marginal Costs per unit =

(a) Change in Total Costs ÷ Change in Output Quantity
(b) Change in Variable Costs ÷ Change in Output Quantity
(c) Either (a) or (b)
(d) Neither (a) nor (b)

Q 121. Which of the following describes the behaviour of Marginal Cost Curve?

(a) Declines first, reaches its minimum and then rises
(b) Rises first, reaches a maximum and then declines
(c) Remains constant throughout all output levels
(d) Nothing can be said

Q 122. Marginal Cost Curve of a Firm will be —

(a) L Shaped (b) 3 Shaped
(c) U Shaped (d) Inverted U Shaped

Q 123. Marginal Cost Curve of a Firm will show behaviour when compared to Marginal Product (MP) Curve.

(a) Same (b) Reverse
(c) Either (a) or (b) (d) Nothing can be said

Q 124. Marginal Costs are applicable in —

(a) Short—Run (b) Long—Run
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 125. Additional cost incurred by a Firm as a result of a business decision —

(a) Sunk Cost (b) Replacement Cost
(c) Incremental Cost (d) Extra Cost

Q 126. Which of the following statement is correct?

(a) An increase in price will make Replacement Costs higher than Historical Cost.
(b) A decrease in price will make Replacement Costs higher than Historical Cost.
(c) An increase in price will make Replacement Costs lower than Historical Cost.
(d) None of the above

Q 127. The cost incurred during the acquisition of an asset

(a) Sunk Cost (b) Replacement cost
(c) Historical cost (d) None of the above

Q 128. Cost of Production incurred by an Individual firm is —

(a) Private Cost (b) Social Cost
(c) Production Cost (d) None of the above

Q 129. Socia l Cost =

(a) Explicit Cost + Implicit Cost
(b) Private Cost + External Cost
(c) Private Cost + Internal Cost
(d) None of the above

Short run and long Run cost concept

Q 130. Which of the following statements regarding Output is false?

(a) Output is under the control of the Firm

(b) Magnitude of the Output determines the Total Cost of Production
(c) Change in output level determines the rate of change in the Total Cost of Production
(d) Output has no role to play in determining the Cost Function

Q 131. If 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

Q 132. If the Firm's output level is below its short run capacity, it is its Plant and Machinery.
(a) Under utilizing (b) Fully utilizing
(c) Over utilizing (d) Exploiting

Q 133. Which of the following statements is correct concerning the relationships among the Firm's Costs?
(a) TC = TFC — TVC (b) TVC = TFC+ TC
(c) TFC = TC –TVC (d) TC = TVC- TFC

Q 134. TFC Curve will be a —
(a) Curve
(b) Straight Line
(c) Rectangular Hyperbola
(d) None of these

Q 135. TFC Curve will be a straight line
(a) Parallel to X—Axis
(b) Parallel to Y—Axis
(c) Increasing from left to right
(d) Decreasing from left to right

Q 136. TFC Curve will commence from —
(a) A certain point on the Quantity Axis (X Axis)
(b) A certain point on the Cost Axis (Y Axis)
(c) Origin
(d) Any of the above

Q 137. TVC Curve will be a —
(a) Curve with a positive slope
(b) Curve with a negative slope
(c) Either (a) or (b)
(d) Neither (a) nor (b)

Q 138. TC Curve will —
(a) Increase, i.e. slope upward from left to right
(b) Decrease, i.e. slope downward from left to right
(c) Either (a) or (b)
(d) Neither (a) nor (b)

Q 139. TC Curve will commence from —
(a) A certain point on the Quantity is (X Axis)
(b) A certain point on the Cost Axis (Y Axis)
(c) Origin
(d) Any of the above

Q 140. TVC Curve will be —
(a) Higher than the TC Curve
(b) Lower than the TC Curve
(c) Parallel to X Axis
(d) Parallel to Y Axis

Q 141. If Variable Cost per unit (i.e. AVC) is constant at all levels of output, NC Curve will be —
(a) Curve with positive slope
(b) Straight Line with positive slope
(c) Rectangular Hyperbola
(d) None of these

Q 142. The Vertical difference between TVC and TC is equal to—
(a) MC (b) AVC
(c) TFC (d) None of these

Q 143. "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 behaviour in the short run is:
(a) rational, if the firm is covering its variable cost.
(b) rational, if the firm is covering its fixed costs.
(c) irrational, since plant closing is necessary to eliminate losses.
(d) irrational, since fixed costs are eliminated if a firm shuts down

AVERAGE COST

Q 144. Average Cost is the same as —

(a) Average Fixed Cost
(b) Average Total Cost
(c) Average Variable Cost
(d) All of the above

Q 145. Which of the following is the Average Cost?

(a) Average Fixed Cost + Average Variable Cost
(b) Average Total Cost
(c) Total Cost divided by the number of units
(d) All of the above

Q 146. If TVC = 1,000, TFC = 400, then calculate ATC at 5 units.

(a) 280 (b) 250
(c) 150 (d) 300

AVERAGE FIXED COST

Q 147. Average Fixed Cost (AFC) equals —

(a) ATC — AVC
(b) TFC divided by Output Quantity
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 148. Which of the following describes the behaviour of Average Fixed Cost?

(a) Remains constant throughout all output levels
(b) Declines throughout as output increases
(c) Declines first, reaches its minimum and then rises
(d) Rises first, reaches a maximum and then declines

Q 149. 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

Q 150. In the short run, when the output of a Firm decreases, its Average Fixed Cost —

(a) Increases
(b) Decreases
(c) Remains constant
(d) First declines and then rises

Q 151. Average Fixed Cost (AFC) of a Firm is related to its output.

(a) Directly (b) Inversely
(c) Proportionately (d) Not

Q 152. Which of the following describes the behaviour of Average Fixed Cost Curve?

(a) Declines first, reaches its minimum and then rises
(b) Rises first, reaches a maximum and then declines
(c) Remains constant throughout all output levels
(d) Declines throughout as output increases

Q 153. Which of the following is true with respect to Average Fixed Cost?

(a) It is a bell shaped Curve
(b) As the quantity increases it approaches zero
(c) If quantity produced tends to zero, Average Fixed Cost approaches infinity
(d) Both (b) and (c) above

Q 154. AFC Curve will be a —

(a) Curve with a positive slope
(b) Curve with a negative slope
(c) Straight Line
(d) None of the above

Q 155. Which curve is downward sloping and does not touch the X-axis?

(a) AVC (b) MC
(c) ATC (d) AFC

Q 156. All of the following are U—Shaped Curves except the—

(a) AVC Curve (b) AFC Curve
(c) AC Curve (d) MC Curve

Q 157. The AFC Curve passes through the Origin. This statement is —

(a) True (b) False
(c) Partially True (d) Nothing can be said

Q 158. Which statement among below is correct in reference to AFC?

(a) Never becomes zero
(b) Curve never touch X-axis
(c) Curve never touch Y-axis

(d) All of the these

Q 159. Average Cost of Producing 50 units of a Commodity is 250 and fixed cost is 1000. What will be the average fixed cost of producing 100 units of the Commodity?

(a) 10 (b) 30

(c) 20 (d) 5

Q 160. A Firm's average fixed Cost id 20 at 6 units of output. What will it be at 4 units of output?

(a) 60 (b) 30

(c) 40 (d) 20

AVERAGE VARIABLE COST

Q 161. Average Variable Cost (AVC) equals —

(a) ATC — AFC

(b) TVC divided by Output Quantity

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 162. AVC decreases as output increases —

(a) Upto normal capacity output

(b) Beyond normal capacity output

(c) At all levels of output

(d) Nothing can be said

Q 163. AVC decreases as output increases, upto normal capacity output, due to —

(a) Law of constant returns

(b) Law of diminishing returns

(c) Law of increasing returns

(d) Law of negative returns

Q 164. AVC increases as output increases —

(a) Upto normal capacity output

(b) Beyond normal capacity output

(c) At all levels of output

(d) Nothing can be said

Q 165. AVC increases as output increases, beyond normal capacity output, due to —

(a) Law of Constant Returns

(b) Law of Diminishing Returns

(c) Law of Increasing Returns

(d) Law of Equi—Marginal Utility

Q 166. Average Variable Cost Curve —

(a) Slopes downwards at first and then upwards

(b) Slopes upwards, remains constant and then falls

(c) Slopes downwards always

(d) Remains a straight line parallel to X Axis

Q 167. Average Variable Cost Curve has a negative slope —

(a) Upto normal capacity output

(b) Beyond normal capacity output

(c) At all levels of output

(d) Nothing can be said

Q 168. Average Variable Cost Curve slopes upwards —

(a) Upto normal capacity output

(b) Beyond normal capacity output

(c) At all levels of output

(d) Nothing can be said

Q 169. A firm produces 10 units of commodity at an average total cost of ₹ 200 and with a fixed cost of ₹ 500. Find out component of average variable cost in total cost.

(a) ₹ 300 (b) ₹ 200

(c) ₹ 150 (d) ₹ 100

AVERAGE COST OR AVERAGE TOTAL COST

Q 170. Average Cost (AC) equals —

(a) ATC + AFC

(b) Total Cost divided by Output Quantity

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 171. Initially Average Cost declines sharply due to the reason that —

(a) AFC declines significantly as output increases

(b) AVC declines significantly as output increases

(c) AFC increases as output increases

(d) AVC increases as output increases

Q 172. Initially, even when there is an increase in Average Variable Cost (AVC), Average Cost (AC) may still decline due to the reason that —

(a) Fall in AFC is less than the rise in AVC

(b) Fall in AFC is greater than the rise in AVC

(c) Fall in AFC is equal to the rise in AVC
(d) None of the above

Q 173. Beyond certain output level, when there is an increase in Average Variable Cost (AVC), Average Cost (AC) also increases due to the reason that —
(a) Fall in AFC is less than the sharp rise in AVC
(b) Fall in AFC is greater than the sharp rise in AVC
(c) Fall in AFC is equal to the rise in AVC
(d) None of the above

Q 174. Average Cost Curve —
(a) Slopes downwards at first and then upwards
(b) Slopes upwards, remains constant and then falls Slopes downwards always
(c) Remains a straight line parallel to X Axis

Q 175. The AC Curve and AVC Curve start increasing at the same output level only. This statement is
(a) True
(b) False
(c) Partially True
(d) Nothing can be said

Q 176. The AC Curve passes through the Origin. This statement is —
(a) True
(b) False
(c) Partially True
(d) Nothing can be said

Q 177. Average Cost Curve is a —
(a) U Shaped Curve
(b) J Shaped Curve
(c) L Shaped Curve
(d) Straight Line

Q 178. Average total cost to firm is ₹ 600 when it produces 10 units of output and ₹ 640 when the output is 11 units. The MC of the 11th unit is
(a) 40 (b) 540
(c) 840 (d) 1040

MARGINAL COST AND AVERAGE COST RELATIONSHIPS

Q 179. Maginal Cost Curve cuts the Average Cost Curve —
(a) At the left to its lowest point
(b) At its lowest point
(c) At the right to its lowest point
(d) Any of the above

Q 180. When, we know that the Firms must be producing at the minimum point of the Average Cost Curve and so there will be productive efficiency.
(a) AC = AR (b) MC = AC
(c) MC = MR (d) AR = MR

Q 181. The relationship between the AC and MC is that
(a) MC will always be less than the AC
(b) MC will be more than AC when MC is falling
(c) AC may be more than MC when MC is rising
(d) None of the above

Q 182. If a Firm's Average Variable Cost Curve is rising, its Marginal Cost Curve must be —
(a) Constant
(b) Above the Total Cost Curve
(c) Above the Average Variable Cost Curve.
(d) All of the above.

Q 183. Which of the following is true of the relationship between Marginal Cost and Average Cost Functions?
(a) If MC is greater than AC, then AC is falling
(b) AC Curve intersects the MC Curve at minimum MC
(c) MC Curve intersects the AC Curve at minimum AC
(d) If MC is less than AC, then AC is increasing

Q 184. Marginal Cost is —
(a) Always less than the Average Cost
(b) Always more than the Average Cost
(c) Equal to the Average Cost at its minimum point
(d) Never equal to Average Cost

Q 185. When shape of Average Cost Curve is upward, Marginal Cost —
(a) Must be decreasing
(b) Must be constant
(c) Must be rising
(d) Any of the above

Q 186. The MC Curve cuts the AVC and ATC Curves

(a) At the falling part of each.
(b) At different points.
(c) At their respective minimas.
(d) At the rising part of each.

Q 187. MC Curve cuts the AVC and ATC Curves —

(a) From above
(b) From below
(c) Either (a) or (b)
(d) Neither (a) nor (b)

Q 188. When AC falls as a result of an increase in output —

(a) MC = AC (b) MC < AC
(c) MC > AC (d) Nothing can be said

Q 189. MC Curve is lower than AC, when —

(a) AC decreases
(b) AC increases
(c) AC is at its minimum
(d) Nothing can be said

Q 190. When AC increases as a result of an increase in output

(a) MC = AC (b) MC < AC
(c) MC > AC (d) Nothing can be said

COST COMPUTATIONS

Q 191. A Firm's Average Total Cost is ₹ 300 at 5 units of output and 320 at 6 units of output. The Marginal Cost of producing the 6th unit is —

(a) ₹ 20 (b) ₹ 120
(c) ₹ 320 (d) ₹ 420

Q 192. A Firm has a Variable Cost of 1000 at 5 units of output. If Fixed Costs are ₹ 400, what will be the Average Total Cost at 5 units of output?

(a) ₹ 280 (b) ₹ 60
(c) ₹ 120 (d) 1,400

Q 193. What is the Average Total Cost in producing 20 units, if Fixed Cost is 5,000 and Variable Cost is ₹ 200?

(a) ₹250 (b) ₹260
(c) ₹258 (d) ₹252

Q 194. A Firm producing 7 units of output has an Average Total Cost of ₹ 150 and has to pay ₹ 350 to its Fixed Factors of Production whether it produces or not. How much of the Average Total Cost is made up of Variable Costs?

(a) ₹ 200 (b) ₹ 50
(c) ₹ 300 (d) ₹ 100

Use the following data to answer the following 11. questions

Output (in units)	**Total Cost (TC) (in Z)**
0	240
1	330
2	410
3	480
4	540
5	610
6	690
7	840

Q 195. TFC at all levels of Output is —

(a) Nil (b) 240
(c) 330 (d) 690

Q 196. AFC for 3 units of Output is —

(a) 240 (b) 120
(c) 80 (d) 60

Q 197. MC for 2nd unit of Output is —

(a) Nil (b) 90
(c) 80 (d) 70

Q 198. MC for 3rd unit of Output is —

(a) Nil (b) 90
(c) 80 (d) 70

Q 199. AC is minimum at units of Output.

(a) 4 (b) 5
(c) 6 (d) 7

Q 200. MC Curve will cut AC Curve at units of Output

(a) 4 (b) 5
(c) 6 (d) 7

Q 201. A company produces 10 units of output and incurs Z 30 per unit of variable cost and ₹5 per unit of fixed cost. In this case total cost is:

(a) ₹ 300 (b) ₹ 35

(c) ₹ 305 (d) ₹ 350

LONG RUN COST BEHAVIOUR

Q 202. The period of time in which the Plant Capacity can be varied is known as —

(a) Short Period (b) Market Period

(c) Long Period (d) All of the above.

Q 203. Which is the other name given to the Long Run Average Cost Curve?

(a) Profit Curve (b) Planning Curve

(c) Demand Curve (d) Indifference Curve

Q 204. Which one of the following is also known as Plant Curve?

(a) Long—Run Average Cost Curve

(b) Short—Run Average Cost Curve

(c) Average Variable Cost Curve

(d) Average Total Cost Curve

Q 205. LAC = Least Cost combination for an appropriate output level. This statement is —

(a) True (b) False

(c) Partially True (d) Nothing can be said

Q 206. In the long—run, the Firm will operate at the for any output level, by choosing the appropriate Plant Size.

(a) Optimum cost

(b) Minimum cost

(c) Maximum cost

(d) Nothing can be said

Q 207. In the long—run, the Firm will decide on which SAC Curve it should operate to produce a given output, so that its —

(a) AC is minimum (b) AC is maxmum

(c) MC is minimum (d) MC is maximum

Q 208. In the long—run, the Firm will try to select —

(a) Lowest point of every SAC

(b) SAC with the lowest cost for a particular level of output

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 209. In the long—run, when there are infinite SAC Curves, the LAC Curve will be —

(a) Perpendicular to each SAC Curve

(b) Connecting the lowest points of each SAC Curve

(c) Smooth Curve, so as to be tangent to each of the SAC Curves

(d) All of the above

Q 210. LAC Curve is tangent to each of the infinite SAC Curves. This statement is —

(a) True

(b) False

(c) Partially True

(d) Nothing can be said

Q 211. LAC Curve is the connection of all minimum points of SAC Curves. This statement is —

(a) True

(b) False

(c) Partially True

(d) Nothing can be said

Q 212. When LAC Curve is declining, it will be tangent to the

(a) Falling portions of the SAC Curves

(b) Rising portions of the SAC Curves

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 213. When LAC Curve is rising, it will be tangent to the —

(a) Falling portions of the SAC Curves

(b) Rising portions of the SAC Curves

(c) Both (a) and (b)

(d) Neither (a) nor (b)

Q 214. 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 LAC 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.

Q 215. If the LAC Curve falls as output expands, this falls is due to —
(a) Economies of Scale
(b) Law of Diminishing Returns
(c) Diseconomies of Scale
(d) Any of the above

Q 216. If the LAC Curve rises as output expands, this falls is due to —
(a) Economies of Scale
(b) Law of Diminishing Returns
(c) Diseconomies of Scale
(d) Any of the above

Q 217. Long Run Average Cost Curves are broadly—
(a) U — shaped
(b) Inverted U — shaped
(c) V shaped
(d) L shaped

Q 218. The LAC Curve —
(a) Falls when the LMC Curve falls
(b) Rises when the LMC Curve rises
(c) Goes through the lowest point of the LMC Curve
(d) Falls when LMC < LAC and rises when LMC > LAC

Revenue Concept:

Q 219. Total Revenue =
(a) Money which a Firm realizes by selling certain units of a commodity.
(b) Revenue earned per unit of output
(c) Change in Total Revenue (TR) resulting from the sale of an additional unit of the commodity.
(d) None of the above

Q 220. Average Revenue =
(a) Money which a Firm realizes by selling certain units of a commodity.
(b) Revenue earned per unit of output
(c) Change in Total Revenue (TR) resulting from the sale of an additional unit of the commodity.
(d) None of the above

Q 221. Marginal Revenue =
(a) Money which a Firm realises, by selling certain units of a commodity.
(b) Revenue earned per unit of output
(c) Change in Total Revenue (TR) resulting from the sale of an additional unit of the commodity.
(d) None of the above

Q 222. 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) hThe change in P x Q due to a one unit change in output
(d) Price, but only if the Firm is a price searcher

Q 223. The firm will attain equilibrium at a point where MC curve cuts curve from below
(a) AR (b) MR
(c) AC (d) AVC

Q 224. Price =
(a) Total Revenue (b) Average Revenue
(c) Marginal Revenue (d) Zero Revenue

Q 225. If a seller obtains Z 3,000 after selling 50 units and Z 3,100 after selling 52 units then MR will be—
(a) 59.62 (b) 50.00
(c) 60.00 (d) 59.80

Q 226. When Price is ₹ 10, 5 units can be sold. When price is reduced to ₹ 9, 6 units can be sold. Here, Marginal Revenue will be —
(a) ₹ 10 (b) ₹ 9
(c) ₹ 1 (d) ₹ 4

Q 227. When Price is ₹ 5, 40 units can be sold. When price is reduced to ₹ 4, 60 units can be sold. Here, Marginal Revenue will be —
(a) ₹ 120 (b) ₹40
(c) ₹60 (d) ₹ 2

Q 228. If a Seller gets ₹ 10,000 by selling 100 units and ₹ 14,000 by selling 120 units, his Marginal Revenue is

(a) ₹ 4,000 (b) ₹ 450

(c) ₹ 200 (d) ₹100

Q 229. When Price = ₹ 20, quantity demanded is 15 units, and when Price = ₹ 18, quantity demanded is 16 units. What is the Marginal Revenue resulting from an increase in output from 15 units to 16 units?

(a) ₹ 18 negative (b) ₹ 18 positive

(c) ₹ 12 negative (d) ₹ 12 positive

Q 230. As quantity increases, Total Revenue (TR) Curve —

(a) Always increases

(b) Always decreases

(c) First increases, reaches a maximum, and then decreases.

(d) First decreases, reaches a minimum, and then increases.

Q 231. If Total Revenue (TR) increases, Marginal Revenue (MR) will be —

(a) Positive (b) Negative

(c) Zero (d) Infinity

Q 232. If Total Revenue (TR) decreases, Marginal Revenue (MR) will be —

(a) Positive (b) Negative

(c) Zero (d) Infinity

Q 233. If Total Revenue (TR) is maximum, Marginal Revenue (MR) will be —

(a) Positive (b) Negative

(c) Zero (d) Infinity

Q 234. Generally, Marginal Revenue (MR) Curve —

(a) Is parallel to X Axis

(b) Is parallel to Y Axis

(c) Slopes upward from left to right

(d) Slopes downward from left to right

Q 235. Generally, Average Revenue (AR) Curve —

(a) Is parallel to X Axis

(b) Is parallel to Y Axis

(c) Slopes upward from left to right

(d) Slopes downward from left to right

Q 236. Generally, as quantity sold increases, Marginal Revenue (MR) and Average Revenue (AR) Curve —

(a) MR and AR increase

(b) MR and AR decrease

(c) MR increases but AR decreases

(d) MR decreases but MR increases

Q 237. Let, Marginal Revenue = MR and Average Revenue = AR. Generally, as quantity sold increases —

(a) MR falls quickly than AR

(b) MR falls slowly than AR

(c) MR and AR fall at the same rate

(d) MR and AR do not change

Q 238. Let, Marginal Revenue = MR and Average Revenue = AR. Generally, as quantity sold increases —

(a) AR falls quickly than MR

(b) AR falls slowly than MR

(c) AR and MR fall at the same rate

(d) AR and MR do not change

Q 239. Marginal Revenue (MR) —

(a) Will have positive values only

(b) Will have negative values only

(c) Can be positive or zero, but not negative.

(d) Can be positive or zero or even negative.

Q 240. If Marginal Revenue (MR) Curve is depicted on a graph with Quantity on X axis —

(a) MR will not go below the X axis.

(b) MR may go below the X axis.

(c) MR cannot be depicted on the graph at all.

(d) None of the above

Q 241. Average Revenue (AR) —

(a) Will have positive values only

(b) Will have negative values only

(c) Can be positive or zero, but not negative.

(d) Can be positive or zero or even negative.

Q 242. What is the relationship between AR and MR?

(a) AR and MR both are negatively sloped

(b) MR Curves always lies half—way between AR Curve and Origin

(c) AR and MR both can be zero or negative
(d) All of these

Q 243. Average Revenue (AR) Curve denotes—
(a) Demand (b) Supply
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 244. If Average Revenue (AR) Curve is depicted on a graph with Quantity on X axis —
(a) AR will not go below the X axis.
(b) AR may go below the X axis.
(c) AR cannot be depicted on the graph at all.
(d) None of the above

Q 245. Which of the following is correct?
(a) If Marginal Revenue is positive and falling, Total Revenue will rise at a decreasing rate.
(b) Total Revenue is equal to price times the quantity sold.
(c) Marginal Revenue and Average Revenue can be calculated from Total Revenue.
(d) All of the above.

Q 246. If Marginal Revenue = MR, Price Elasticity Demand = `e', and e < 1, then MR will be —
(a) Positive (b) Negative
(c) Zero (d) Infinity

Q 247. If Marginal Revenue = MR, Price Elasticity of Demand = 'e', and e > 1, then MR will be —
(a) Positive (b) Negative
(c) Zero (d) Infinity

Q 248. If Marginal Revenue = MR, Price Elasticity of Demand = `e', and e = 1, then MR will be —
(a) Positive (b) Negative
(c) Zero (d) Infinity

Q 249. If Marginal Revenue = MR, Price Elasticity of Demand = `e', and MR = 0, e will be
(a) e > 1 (b) e < 1
(c) e = 1 (d) e = zero

Q 250. If Average Revenue (AR) = ₹ 30, Price Elasticity of Demand (e) = 1.5, then MR will be
(a) ₹ 10 (b) ₹ 20
(c) ₹ 30 (d) ₹ Nil

Q 251. If Average Revenue (AR) = Z 30, Demand (e) = 1, then MR will be —
(a) Positive (b) Negative
(c) Zero (d) Infinity

Q 252. If Average Revenue (AR) = 300, Price Elasticity of Demand (e) = 2.5, then MR will be
(a) 180 (b) 120
(c) 300 (d) Nil

PROFIT MAXIMISATION

Q 253. 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

Q 254. In the short run, as the prices are fixed, Firms can maximize their profit when they operate at
(a) MC = MR (b) MC > MR
(c) MC < MR (d) MC = AC

Q 255. If Marginal Cost = MC, and Marginal Revenue = MR, then, for achieving equilibrium output, the conditions are —
(a) MC = MR
(b) MC Curve should cut MR Curve from below.
(c) Both (a) and (b)
(d) Neither (a) nor (b)
(a) MR Curve.

Q 256. If Marginal Cost = MC, and Marginal Revenue = MR, and MC < MR, the Firm should —
(a) Increase its output.
(b) Reduce its output
(c) Operate at the present level itself.
(d) Should shut down.

Q 257. What should Firm do when Marginal Revenue is greater than Marginal Cost?
(a) Firm should expand output
(b) Efforts should be made to make then equal
(c) Prices of the products should be lowered down
(d) All of the above

Q 258. If Marginal Cost = MC, and Marginal Revenue = MR, and MC > MR, the Firm should —
(a) Increase its output
(b) Reduce its output
(c) Operate at the present level itself
(d) Should shut down

Q 259. If Marginal Cost = MC, and Marginal Revenue = MR, then, for achieving equilibrium output —
(a) MC Curve should have positive slope
(b) MC Curve should have negative slope
(c) MC Curve should be parallel to X Axis
(d) MC Curve should be parallel to Y Axis

Q 260. Let Marginal Cost = MC, and Marginal Revenue MR. If MC Curve cuts MR from above, it means —
(a) MC Curve is parallel to X Axis
(b) MC Curve is parallel to Y Axis
(c) MC Curve has a negative slope
(d) MC Curve has a positive slope

Q 261. Let Marginal Cost = MC, and Marginal Revenue = MR. If MC Curve cuts MR from above, it means —
(a) Firm is at equilibrium output level.
(b) Firm is below equilibrium output level.
(c) Firm is above equilibrium output level.
(d) Firm does not operate at all.

Q 262. Let Marginal Cost = MC, and Marginal Revenue MR. If MC Curve cuts MR from below, it means —
(a) Firm is at equilibrium output level.
(b) Firm is below equilibrium output level.
(c) Firm is above equilibrium output level.
(d) Firm does not operate at all.

Q 263. If any unit of production adds more to revenue than to cost it will result into —
(a) Increase in Profit (b) Decrease in Profit
(c) No change (d) Loss

Q 264. If any unit of production adds more to cost than to revenue it will result into —
(a) Increase in Profit (b) Decrease in Profit
(c) No change (d) Loss

Q 265. When a Market is in equilibrium —
(a) No shortages exist.
(b) Quantity demanded equals quantity supplied.
(c) A price is established that clears the market.
(d) All of the above are correct.

Q 266. Profits of the Firm will be more at —
(a) MR = MC
(b) AR > AC
(c) Both of the above
(d) None of these

Q 267. Let Average Cost = AC, and Average Revenue = AR. If AR > AC, it means that the Firm —
(a) Is earning Super—Normal Profits
(b) Is earning Normal Profits
(c) Is making Losses
(d) Has to shut—down

Q 268. Let Average Cost = AC, and Average Revenue = AR. If AR = AC, it means that the Firm —
(a) Is earning Super—Normal Profits
(b) Is earning Normal Profits
(c) Is making Losses
(d) Has to shut—down

Q 269. Let Average Cost = AC, and Average Revenue = AR. If AR < AC, it means that the Firm —
(a) Is earning Super—Normal Profits
(b) Is earning Normal Profits
(c) Is making Losses in the economic sense
(d) Has to shut—down.

Q 270. Which of the following statements is incorrect?
(a) If Marginal Revenue exceeds Marginal Cost, the Firm should increase output.
(b) If Marginal Cost exceeds Marginal Revenue the Firm should decrease output.
(c) Economic Profits are maximized when Total Costs are equal to Total Revenue.
(d) Profits are maximized when Marginal Revenue equals Marginal Cost.

Q 271. Suppose that a Sole Proprietorship Firm is earning Total Revenues of ₹ 120,000 and is incurring Explicit Costs of ₹ 90,000. If the Owner could work for another Company for ₹ 50,000 a year, we would conclude that

(a) The Firm is incurring an Economic Loss
(b) Implicit Costs are ₹ 90,000
(c) The total Economic Costs are ₹ 100,000
(d) The Individual is earning an Economic Profit of ₹25,000

Q 272. Suppose that a Sole Proprietorship is earning Total Revenue of ₹ 1,50,000 and is incurring Explicit Costs of ₹75,000. If the Owner could work for another Company for ₹30,000 a year, it can be concluded that

(a) The Firm is incurring an Economic Loss
(b) Implicit Costs are ₹ 25,000
(c) Total Economic Costs are ₹1,00,000
(d) The individual is earning an economic profit of ₹ 45,000

Q 273. Suppose the Total Cost of Production of Commodity X is ₹ 1,25,000. Out of this Cost, Implicit Cost is ₹ 35,000 and Normal Profit is ₹25,000. What will be the Explicit Cost of Commodity X?

(a) ₹ 90,000 (b) ₹ 65,000
(c) ₹60,000 (d) ₹ 1,00,000

Q 274. If the Total Product Cost for manufacturing of a commodity is ₹1,50,000. Out of this, Implicit Cost is ₹ 55,000 and Normal Profit is₹ 25,000, what will be Explicit Cost?

(a) ₹95,000 (b) ₹ 1,25,000
(c) ₹ 80,000 (d) ₹70,000

SHUT DOWN POINT

Q 275. Let Average Variable Cost = AVC, and Average Revenue = AR. If AR < AVC, it means that the Firm

(a) Is earning Super—Normal Profits
(b) Is earning Normal Profits
(c) Is making Losses but need not shut—down
(d) Has to shut—down

Q 276. Which of these is a condition for shut—down of a Firm?

(a) AR > AVC (b) AR > AC
(c) AR < AC (d) AR < AVC

Q 277. If AR < AVC and the Firm continues production, then

(a) Losses will be reduced (b) Profits will be reduced
(c) Losses will increase (d) Profits will increase

Q 278. If AR < AVC and the Firm stops production, then —

(a) There is no profit no loss
(b) There is a Loss equivalent to Fixed Costs
(c) There is a Profit
(d) None of the above

Q 279. In the short run, if the Firm cannot cover its Total Variable Cost —

(a) It continues its operations
(b) It shuts down its operations temporarily
(c) It shuts down its operations forever
(d) It makes more investments to make the operations viable

Q 280. A Firm encounters its "Shut—Down Point" when—

(a) Average Total Cost equals price at the profit—maximizing level of output.
(b) Average Variable Cost equals Price at the profit—maximizing level of output.
(c) Average Fixed Cost equals price at the profit-maximizing level of output.
(d) Marginal Cost equals Price at the profit-maximizing level of output.

Q 281. "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 behaviour in the short-run is

(a) Rational, if the Firm is covering its Variable Cost.
(b) Rational, if the Firm is covering its Fixed Costs.
(c) Irrational, since Plant Closure is necessary to eliminate losses.
(d) Irrational, since Fixed Costs are eliminated if a Firm shuts down.

Q 282. At Shut-Down Point -

(a) Price is equal to AVC
(b) Total Revenue is equal to TVC
(c) Total Loss of the Firm is equal to TFC

(d) All of the above

Q 283. In the long-run, if the Firm is unable to cover the Average Total Cost then it -
(a) Decreases the Selling Price
(b) Increases the Labour to increase production
(c) Decreases the Labour to decrease prediction
(d) Moves out of the business

Q 284. 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

Q 285. In the long-run, Firms will exit the market if the price of the good offered for sale is less than -
(a) Marginal Revenue (b) Marginal Cost
(c) Average Total Cost (d) Average Revenue

Q 286. In the long run, there is enough time for the Firm to cover its Losses and earn Normal Profits. This is because in the long run, all inputs are -
(a) Identical (b) Homogenous
(c) Variable (d) Fixed

COMPREHENSIVE PROBLEMS

A Competitive Firm sells as much as of its product as it chooses at a Market Price of 2100 per unit. Its Fixed Costs are 2300 and its Variable Costs for different levels of production are shown in the following table. Use the following table and answer the next 14 questions

Quantity	TVC	TFC	TC	AVC	AFC	AC	MC
0	0						
5	250						
10	470						
15	700						
20	980						
25	1350						
30	1850						
35	2520						
40	3400						
45	4530						
50				5950			

Q 287. When Production is 10 units, AVC will be -
(a) ₹ 50.00 (b) ₹ 47.00
(c) ₹ 46.67 (d) ₹ 49.00

Q 288. When Production is 10 units, AC will be -
(a) ₹ 50.00 (b) ₹ 97.00
(c) ₹ 77.00 (d) ₹ 110.00

Q 289. When Production is 20 units, AVC will be -
(a) ₹50.00 (b) ₹ 47.00
(c) ₹ 46.67 (d) ₹ 49.00

Q 290. When Production is 40 units, AC will be -
(a) ₹85.00 (b) ₹82.50
(c) ₹ 92.50 (d) ₹95.00

Q 291. When Production is 50 units, AVC will be -
(a) ₹ 100.00 (b) ₹ 110.00
(c) ₹ 119.00 (d) ₹ 125.00

Q 292. AC is minimum when output is -
(a) 10 units (b) 20 units
(c) 30 units (d) 40 units

Q 293. MC Curve will cut AC Curve when output is -
(a) 10 units (b) 20 units
(c) 30 units (d) 40 units

Q 294. To maximize Profit, the Firm should produce -
(a) 15 units (b) 30 units
(c) 35 units (d) 50 units

Use Table to answer the following 4 questions.
Bozzo's burgers is a small restaurant and a price taker. The table below provides the data of Bozzo's output and costs in Rupees.

Qty	TC	FC	AVC	AC	**MC**
0	100	-	-		-
10	210				
20	300				
30	400				
40	540				
50	790				
60	1060				

Q 295. If burgers sell for Rs14 each, what is Bozzo's profit maximizing level of output :

(a) 10 burgers (b) 40 burgers

(c) 50 burgers (d) 60 burgers

Q 296. What is the total variable cost when 50 burgers are produced?

(a) ₹ 690 (b) ₹960

(c) ₹110 (d) ₹440

Q 297. What is average fixed cost when 20 burgers are produced?

(a) ₹ 5 (b) ₹3.33

(c) ₹ 10 (d) ₹ 2.5

Q 298. Between 10 to 20 burgers, what is the marginal cost (per burger)?

(a) ₹ 11 (b) ₹ 13

(c) ₹ 14 (d) ₹ 9

Use Table to answer the following 5 questions.

The following table provides cost and price information for an individual firm. The first two columns represent the demand curve that the firm faces. The firm has a fixed amount of capital equipment, but can change the level of other inputs. such as labour and materials. Calculate the missing values in the table, and use the table to answer the below questions. (Make sure you answer each question using the production level specified.)

Q	P	TC	TVC	**MC**	TR	**MR**
0	130	45				
1	124	88				
2	118	125				
3	112	159				
4	106	193				
5	100	230				
6	94	273				
7	88	325				
8	82	389				
9	76	465				

Q 299. When production equals 4 units, the firm's:

(a) Fixed cost is 100 and its variable cost is 93.

(b) Fixed cost is 193 and its variable cost is 0.

(c) Fixed cost is 0 and its variable cost is 193,

(d) Fixed cost is 45 and its variable cost is 148.

Q 300. When production equals 5 units, the firm's Total Revenue is:

(a) ₹ 100 (b) ₹ 270

(c) ₹ 324 (d) ₹ 500

Q 301. When production equals 6 units, the firm's marginal revenue is:

(a) ₹ 384 (b) ₹ 94

(c) ₹ 64 (d) ₹ 2.

Q 302. When production equals 7 units, the firm's profit is:

(a) +6₹ 0 (b) ₹ 41.57

(c) ₹ 291 (d) ₹ 336

Q 303. To maximize its profit, the firm should produce:

(a) 0 units. (b) 3 units.

(c) 5 units. (d) 7 units.

Production optimization

Q 304. The term "Iso" means —

(a) Single (b) Unequal

(c) Equal (d) Similar

Q 305. Isoquant represents

(a) Constant quantity of input

(b) Variable quantity of input

(c) Variable quantity of output

(d) Constant quantity of output

Q 306. represents all those combinations of inputs which are capable of producing the same level of output.

(a) Isoquant (b) Isocost

(c) Isoprice (d) None of the above

Q 307. Isoquants are also called —

(a) Equal—Product Curves

(b) Production Indifference Curves

(c) Isoproduct Curves

(d) All the above

Q 308. Isoquants

(a) Are concave to the origin

(b) Touched both the axis

(c) Are non—intersecting

(d) Are positively sloped

Q 309. *Isocost Lines are also called —*

(a) Equal cost Lines

(b) Budget Line -

(c) Budget constraint Line

(d) All the above

Q 310. *shows the various alternative combinations of two Factor Inputs, which a Firm can buy with given amount of money.*

(a) Isocost Lines *(b) Isoproduct Lines*

(c) Isoprice Lines *(d) Isoquant lines*

Q 311. *Which of the following statements is true?*

(a) All points on a Budget Line would cost the Firm the same amount.

(b) Whatever the combination of Factor Inputs the Firm chooses, the Total Cost to the Firm remains the same.

(c) A change in the relative Input Price will cause a change in the slope of the Isocost Line.

(d) All the above

Q 312. *The point of tangency between any Isoquant and an Isocost Line gives the*

(a) highest—cost combination of inputs and maximum level of output that can be produced

(b) lowest—cost combination of inputs and minimum level of output that can be produced

(c) lowest—cost combination of inputs and maximum level of output that can be produced

(d) highest—cost combination of inputs and minimum level of output that can be produced

Q 313. *A line joining tangency points of Isoquants and Isocosts is called*

(a) Expansion Path *(b) Contraction Path*

(c) Constant Path *(d) None of the above*

Q 314. *For Having economics losses, the condition is _________ at the point when MC = MR (MC cutting from below)*

(a) AR > AC *(b) AR = AC*

(c) AR < AC *(d) None of the above*

Q 315. *The Average Profit is the difference between :---*

(a) AC and TC *(b) AC and VC*

(c) AC and AR *(d) AC and TR*

Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n
1	C	51	D	101	B	151	B	201	D	251	C	301	C
2	D	52	D	102	A	152	D	202	C	252	B	302	C
3	D	53	C	103	A	153	D	203	B	253	B	303	D
4	A	54	A	104	A	154	B	204	B	254	A	304	C
5	A	55	B	105	A	155	D	205	A	255	C	305	D
6	C	56	B	106	B	156	B	206	B	256	A	306	A
7	A	57	B	107	D	157	B	207	A	257	A	307	D
8	B	58	D	108	B	158	D	208	B	258	A	308	C
9	B	59	C	109	A	159	A	209	C	259	A	309	D
10	B	60	B	110	AC	160	B	210	A	260	C	310	A
11	C	61	C	111	D	161	C	211	B	261	B	311	D
12	D	62	A	112	D	162	A	212	A	262	B	312	C
13	A	63	D	113	D	163	C	213	B	263	A	313	A
14	D	64	B	114	A	164	B	214	B	264	A	314	C
15	A	65	D	115	A	165	B	215	A	265	D	315	C
16	C	66	D	116	B	166	A	216	C	266	C		
17	D	67	D	117	C	167	A	217	A	267	A		
18	B	68	C	118	C	168	B	218	D	268	B		
19	C	69	D	119	A	169	C	219	A	269	C		
20	D	70	C	120	C	170	C	220	B	270	C		
21	A	71	A	121	A	171	A	221	C	271	A		
22	C	72	B	122	C	172	B	222	C	272	D		
23	C	73	C	123	B	173	A	223	B	273	B		
24	A	74	D	124	C	174	A	224	B	274	D		
25	A	75	B	125	C	175	B	225	B	275	D		
26	B	76	C	126	A	176	B	226	D	276	D		
27	C	77	A	127	B	177	A	227	B	277	C		
28	D	78	C	128	A	178	D	228	C	278	B		
29	C	79	A	129	B	179	B	229	C	279	B		
30	D	80	B	130	D	180	B	230	C	280	B		
31	D	81	B	131	B	181	C	231	A	281	A		
32	B	82	A	132	A	182	C	232	B	282	D		
33	A	83	B	133	C	183	C	233	C	283	D		
34	B	84	C	134	B	184	C	224	D	284	A		
35	A	85	A	135	A	185	C	235	D	285	C		
36	D	86	B	136	B	186	C	236	B	286	C		
37	A	87	D	137	A	187	B	237	A	287	B		
38	A	88	B	138	A	188	B	238	B	288	C		
39	D	89	B	139	B	189	A	239	D	289	D		
40	C	90	A	140	B	190	C	240	B	290	C		
41	A	91	A	141	B	191	D	241	C	291	C		
42	B	92	B	142	C	192	A	242	D	292	B		
43	A	93	D	143	A	193	B	243	A	293	B		
44	A	94	C	144	B	194	D	244	A	294	B		
45	A	95	C	145	D	195	B	245	D	295	C		
46	B	96	A	146	A	196	C	246	B	296	A		
47	A	97	B	147	C	197	C	247	A	297	A		
48	A	98	B	148	B	198	D	248	C	298	D		
49	C	99	C	149	B	199	D	249	C	299	D		
50	B	100	A	150	A	200	C	250	A	300	D		

Chapter 3- Production + Cost + Revenue Concepts

Q.1. _________ shows the overall output generated at a given level of input:
(a) Cost function
(b) Production function 0
(c) ISO cost
(d) Marginal rate of technical substitution

Q.2. If LAC curve falls as output expands, this is due to ________.
(a) Law of diminishing returns
(b) Economics of scale
(c) Law of variable proportion
(d) Dis-economics of scale

Q.3. Isoquants are equal to:
(a) Product Lines (b) Total utility lines
(c) Cost lines (d) Revenue lines

Q.4. The marginal product curve is above the average product curve when the average product is:
(a) Increasing (b) Decreasing
(c) Constant (d) None

Q.5. Increasing returns to scale can be explained in terms of:
(a) External and internal economies
(b) External and internal diseconomies
(c) External economics and internal diseconomies
(d) All of these

Q.6. [6] An isoquant is _______ to an isocost line at the equilibrium point:
(a) Convex (b) Concave
(c) Tangent (d)Perpendicular

Q.7. At the point of inflexion, the marginal product is:
(a) Increasing (b) Decreasing
(c) Maximum (d) Negative

Q.8. Diminishing marginal returns implies:
(a) Decreasing average variable costs
(b) Decreasing marginal costs
(c) Increasing marginal costs
(d) Decreasing average fixed costs

Q.9. If the marginal product of labour is below the average product of labour, it must be true that:
(a) Marginal product of labour is negative
(b) Marginal product of labour is zero
(c) Average product of labour is falling
(d) Average product of labour is negative

Q.10. Law of variable proportion is valid when:
(a) Only one input is fixed and all other inputs are kept variable
(b) All factors are kept constant
(c) All inputs are varied in the same proportion
(d) None of these

Q.11. Change in total revenue due to incremental change in quantity supplied is called:
(a) Marginal Revenue (b) Marginal Change
(c) Average Revenue (d) Average Change

Q.12. Increase in all input leading to less than proportional increase in output is called _______,
(a) Increasing returns to scale
(b) Decreasing returns to scale
(c) Constant returns to scale
(d) Both increasing and decreasing returns to scale

Q.13. Consider the following combinations of inputs and outputs:
This production technology satisfies

Labour	Capital	Output
5	10	1
6	12	2
7	14	3
8	16	4
9	18	5
10	20	6

(a) Increasing returns to scale
(b) Diminishing returns to scale
(c) Constant returns to scale
(d) Increasing returns initially, following by decreasing returns to scale.

Q.14. During II^{nd} stage of law of diminishing returns:

(a) P and TP is maximum
(b) MP and AP are decreasing
(c) AP is negative
(d) TP is negative

Q.15. Who has given the concept of Innovative Entrepreneurship?
(a) Robbins (b) Adam Smith
(c) Schumpeter (d) Sweezy

Q.16. AT 10 units Total Cost — ₹200
20 units Total Cost — ₹600
Marginal Cost = ?
(a) 50 (b) 40
(c) 30 (d) 400

Q.17. Average Fixed Cost = ₹20
Quantity Produced = ₹10 units
What will be the Average Fixed Cost of 20th unit?
(a) ₹10 (b) ₹20
(c) ₹5 (d) None

Q.18. What is Production in Economics:
(a) Creation / Addition of Utility
(b) Production of food grains
(c) Creation of services
(d) Manufacturing of goods

Q.19. External Economies of Scale are obtained by:
(a) A firm (b) A group of firm
(c) Small Production (d) Society

Q.20. If a firm's output is zero, then:
(a) AFC will be positive (b) AVC will be zero
(c) Both of (a) and (b) (d) None of (a) and

Q.21. Functions of the entrepreneur are:
(a) Risk bearing
(b) Initiating a business enterprise and resource co-ordinating
(c) Introducing new innovations
(d) All of the above

Q.22. Law of diminishing returns is applicable in:
(a) Manufacturing industry
(b) Agriculture
(c) Neither (a) nor (b)
(d) Any economic activity at a point of time

Q.23. Labour force wants more
(a) facility (b) leisure
(c) benefit (d) all of the above

Q.24. Production activity in the short-run is analysed by:
(a) Returns to scale (b) Economies of scale
(c) Law of variable proportion (d) None of these

Q.2 5. Increasing returns to scale occurs due to:
(a) Economies of scale (b) Specialization
(c) Indivisibility of factors (d) All of these

Q.26. Law of diminishing returns is applicable in
(a) Only manufacturing industries
(b) Only agriculture
(c) Neither in agriculture nor in industries
(d) In all economic activities after a limit mark

Q.27. Law of increasing returns is applicable because of
(a) Indivisibility of factors (b) Specialization
(c) Economies of scale (d) Both (a) and (b)

Q.28. When output decreases by 20% due to an increase in inputs by 20%, this stage is called the law of
(a) increasing returns to scale
(b)decreasing returns to scale
(c) constant returns to scale
(d)none of the above

Q.29. In the first stage of the law of variable proportions, the total product increases at the
(a) decreasing rate (b) increasing rate
(c) constant rate (d) both a and b

Q.30. What will be the total product when two labourers are hired according to the table given below?

No. of labourers	MP	Total product
0	--	--
1	350	350
2	230	?

(a) 680 (b) 580
(c) 350 (d) 230

Q.31. Which function shows the relationship between input and output?
(a) Consumption fun ction
(b) Investment function
(c) Production function
(d) Cost function

Q.32. External economies are enjoyed:
(a) By large producers only
(b) As the firm expands
(c) Both (a) and (b)
(d) None of above

Q.33. The Law of Diminishing Returns is applicable in ________.
(a) only in manufacturing industries
(b) only in agriculture
(c) neither in agriculture nor in industries
(d) all economic activities after a point

Q.34. The concept of Returns to Scale is related to:
(a) Very short period (b) Short period
(c) Long period (d) None of above

Q.35. The function of an entrepreneur is:
(a) Initiating an enterprise and resource coordination
(b) Risk bearing
(c) Introducing innovations
(d) All of the above

Q.36. Which of the following is not a characteristic of land?
(a) It is a free gift of nature
(b) It is a mobile factor of production
(c) It is limited in quantity
(d) Its productive power is indestructible.

Q.37. A production function is defined as the relationship between
(a) The quantity of physical inputs and physical output of a firm
(b) Stock of inputs and stock of output
(c) Prices of inputs and output
(d) Price and supply of a firm.

Q.38. Production activity in the short period is analysed with the help of:
(a) Law of variable proportion
(b) Laws of returns to scale
(c) Both (a) & (b)
(d) None of the above.

Q.39. Which of the following is the reason for the working of the law of increasing returns?
(a) Fuller utilisation of fixed factors
(b) indivisibility of the factors
(c) Greater specialization of labour
(d) All of the above.

Q.40. External economies can be achieved through:
(a) Foreign trade only
(b) Superior managerial skill
(c) Extension of transport and credit facilities
(d) External assistance.

Q.41. External economies arise due to:
(a) Growth of ancillary industries
(b) High cost of technologies
(c) Increase in the price of factors of production
(b) None of the above.

Q.42. Innovation theory of entrepreneurship is propounded by:
(a) Knight (b) Schumpeter
(c) Max Weber (d) Peter Drucker

Q.43. Production function is:
(a) Purely a technical relationship between input & output
(b) Purely an economic relationship between input & output
(c) Both the technical & economical relationship between input & output
(d) None of the above.

Q.44. The concept of returns to scale is related with:
(a) Very short period (b) Short period
(c) Long period (d) None of the above

Q.45. In Cobb-Douglas production function, two inputs are:
(a) Land and Labour

(b) Labour and Capital mark
(c) Capital and Entrepreneur
(d) Entrepreneur and land

Q.46. Which one of the following is not a characteristic of land?
(a) A free gift of nature
(b) Its supply is fixed
(c) An active factor of production
(d) It has different uses.

Q.47. An Entrepreneur undertakes which one of the following functions?
(a) Initiating a business and resource co-ordination
(b) Risk or uncertainty bearing
(c) Innovations
(d) All of the above.

Q.48. With a view to increase his production, Hariharan a manufacturer of shoes, increases all the factors of production in his unit by 100%. But at the end of the year, he finds that instead of an increase of 100%, his production has increased by only 80%. Which law of returns to scale is operating in this case?
(a) Increasing returns to scale
(b) Decreasing returns to scale
(c) Constant returns to scale
(d) None of the above.

Q.49. Linear homogeneous production function is based on:
(a) Increasing returns to scale
(b) Decreasing returns to scale
(c) Constant returns to scale
(d) None of the above

Q.50. Which of the following statement is true in relation to an ISO-Quant Curve?
(a) It represents those combinations of two factors of production that will give the same level of output
(b) It represents those combinations of all the factors that will give the same level of output
(c) It slopes upward to the right
(d) It can touch either axis.

Q.51. Production is defined as:
(a) Creation of matter
(b) Creation of utility in matter
(c) Creation of infrastructural facilities
(d) None of the above.

Q.52. Long period production function is related to:
(a) Law of variable proportions
(b) Laws of returns to scale
(c) Law of diminishing returns
(d) None of the above.

Q.53. The conclusion drawn from Cobb-Douglas production function is that labour contributed about ______ and capital about ______ of the increase in the manufacturing production.
(a) $\frac{3^{th}}{4}, \frac{1^{th}}{4}$ (b) $\frac{1}{2}, \frac{1}{2}$
(c) $\frac{1^{th}}{4}, \frac{3^{th}}{4}$ (d) None of the above.

Q.54. ISO quants are also known as:
(a) Production possibility curves
(b) Indifference curves
(c) Production indifference curves
(d) None of the above.

Q.55. Human capital refers to:
(a) Savings by individuals
(b) Mobilisation of savings
(c) Human skills and abilities
(d) Productive investment.

Q.56. The Law of Variable Proportions is associated with:
(a) Short period
(b) Long period
(c) Both short and long periods
(d) Neither short nor long period.

Q.57. Which one of the following statements is not correct?
(a) Land has indestructible powers
(b) Labour is mobile
(c) Capital is nature's gift mark
(d) Land is a passive factor.

Q.58. Which of the following is not a characteristic of labour?
(a) It is perishable

(b) It has weak bargaining power
(c) Labour and Labour power cannot be separated
(d) Labour is not mobile

Q.59. Which among the following is not a characteristic of Land?
(a) It is an active factor
(b) It has variety of uses
(c) Its production powers are indestructible
(d) Its supply is limited

Q.60. When average product rises as a result of an increase in the quantity of variable factor, marginal product is:
(a) Equal to average product
(b) More than average product
(c) Less than average product
(d) Becomes negative

Q.61. Suppose the first four units of a variable input generate corresponding total output of 150, 200, 350, 550. What will be the marginal product of the third unit of input?
(a) 50 (b) 100
(c) 150 (d) 200

Q.62. The famous Cobb-Douglas production function is based on studies of _______ industries in the United States of America.
(a) manufacturing (b) construction
(c) consumer (d) aviation.

Q.63. In Economics, entire process of is nothing but creation of utilities in the form of goods and services.
(a) Consumption (b) Production
(c) Exchange (d) Distribution.

Q.64. Cobb Douglas function is given by Q = $KL^{a}\ C^{b}$
(a) If α + β > 1, increasing returns
(b) If α + β > 1, increasing returns to scale
(c) If α + β < 1, diminishing returns
(d) If «+ B = 1, decreasing returns to scale.

Q.65. Production is defined as:
(a) Creation of matter
(b) Creation of utility in matter
(c) Creation of infrastructural facilities
(d) None of the above.

Q.66. The conclusion drawn from Cobb Douglas production function is that labour contributed about _______ and capital about ________ of the increase in the manufacturing production.
(a) $\frac{3^{th}}{4}, \frac{1^{th}}{4}$ (b) $\frac{1^{th}}{2}, \frac{1^{th}}{2}$
(c) $\frac{1^{th}}{4}, \frac{3^{th}}{4}$ (d) None of the above.

Q.67. At the point of inflexion, the marginal product is:
(a) Increasing (b) Decreasing
(c) Maximum (d) Negative

Q.68. Isoquante's are equal to:
(a) Product lines (b) Total utility lines
(c) Cost lines (d) Revenue lines

Q.69. Increasing returns to scale can be explained in terms of:
(a) External and internal economics
(b) External and internal diseconomies
(c) External economies and internal diseconomies (d) All of these.

Q.70. According to Cobb-Douglas production function, will get returns to scale?
(a) Constant (b) Diminishing
(c) Increasing (d)Any of the above

Q.71. Which of the following statement about factors of production is not true?
(a) Land is a passive factor
(b) Land is a free gift of nature
(c) Land is immobile
(d) Land is perishable

Q.72. Which of the following is considered as production in economics?
(a) Helping a blind person in crossing the road
(b) Group dance performance in a collage annual function
(c) Holding a child who is falling from a wall
(d) Performing an art in a theatre

Q.73. Marginal, average and total product of a firm in the short run will not comprise with
(a) When marginal product is at a maximum, average product is equal to marginal product, and total product is rising
(b) When average product is maximum, average product is equal to marginal product, and total product is rising
(c) When marginal product is negative,total product and average product are falling
(d) When total product is increasing, average product and marginal product may be either rising or falling

Q.74. Supply of land is _______ in case of economy?
(a) Elastic (b) Inelastic
(c) Perfectly elastic (d) Perfectly inelastic

Q.75. MP is the slope of _______.
(a) TP (b) AP
(c) Both (d) None

For Questions [77] - [79] used the data table given below :

No of workers	Total output	Marginal output
0	0	0
1	10	-
2	-	8
3	24	-

Q.76. What will be total output for 2 workers?
(a) 6 (b) 18
(c) 12 (d) 17

Q.77. What will be marginal output for 3 workers?
(a) 6 (b) 12
(c) 7 (d) 8

Q.78. Average Product for three labour:
(a) 12 (b) 11
(c) 8 (d) None

Q.79. Opportunity cost is:
(a) Direct cost
(b) Total cost
(c) Accounting cost
(d) Cost of foregone opportunity

Q.80. As output increases, average fixed cost:
(a) Remains constant (b) Starts falling
(c) Start rising (d) None

Q.81. Average fixed cost can be obtained through :
(a) $AFC = \frac{TFC}{TS}$ (b) $AFC = \frac{EC}{TU}$
(c) $AFC = \frac{TC}{PC}$ (d) $AFC = \frac{TFC}{TU}$

Q.82. AFC curve is :
(a) Convex & downward sloping
(b) Concave & downward sloping
(c) Convex & upward sloping
(d) Concave & upward rising

Q.83. A firm's average fixed cost is ₹20 at 6 units of output what will it be at 4 units of output?
(a) ₹60 (b) ₹30
(c) ₹40 (d) ₹20

Q.84. U-shaped average cost curve is based on:
(a) Law of increasing cost
(b) Law of decreasing cost
(c) Law of constant returns to scale
(d) Law of variable proportions

Q.85. When shape of average cost curve is upward, marginal cost :
(a) Must be decreasing (b) Must be constant
(c) Must be rising (d) Any of these

Q.86. If total cost at 10 units is ₹600 and ₹640 for 11th unit. The marginal cost of 11th units :
(a) ₹20 (b) ₹30
(c) ₹40 (d) ₹50

Q.87. Economic cost excludes which of the following :
(a) Accounting cost + explicit cost
(b) Accounting cost + implicit cost
(c) Explicit cost + implicit cost
(d) Accounting cost + opportunity cost

Q.88. Which of the following cost curves is never 'U' shaped?
(a) Average total cost curve
(b) Marginal cost curve
(c) Total cost curve
(d) Total Fixed cost curve

Q.89. Suppose, the total cost of production of commodity X is ₹1,25,000. Out this cost implicit cost is ₹35,000 and normal profit is ₹25,000. What will be the explicit cost of commodity X?
(a) 90,000 (b) 65,000
(c) 60,000 (d) 1,00,000

Q.90. What is the total cost of production of 20 units, if fixed cost is ₹5,000 and variable cost is ₹2 ?
(a) 5,400 (b) 5,040
(c) 4,960 (d) 5,020

Q.91. External economies accrue due to ________
(a) Increasing returns to scale
(b) Increasing returns to factor
(c) Law of variable proportion
(d) Low cost

Q.92. At which point does the marginal cost curve intersect the average variable cost curve and short run average total cost curve?
(a) At equilibrium points
(b) At their lowest points
(c) At their optimum points
(d) They don't intersect at all

Q.93. Implicit cost may be defined as the:
(a) Costs which do not change over a period of time
(b) Costs which the firm incurs but doesn't disclose
(c) Payment to the non-owners of the firm for the resources
(d) Money payment which the self employed resources could have earned in their best alternative employment

Q.94. A firm's average fixed cost is ¥ 40 at 12 units. What will be the average fixed cost at 8 units:
a) ₹60 (b) ₹70
(c) ₹90 (d) ₹80

Q.95. Returns to scale will said to be in operation when quantity of :
(a) All inputs are changed
(b) All inputs are changed in already established proportion
(c) All inputs are not changed
(d) One input is changed while quantity of all other inputs remain the same

Q.96. Which of the following curves never touch any axis but is downward?
(a) Marginal cost curve
(b) Total cost curve
(c) Average fixed cost curve
(d) Average variable cost curve

Q.97. Which of the following is known as Envelope curve?
(a) MC curve (b) AFC curve
(c) LAC curve (d) TFC curve

Q.98. A firm producing 7 units of output has an average total cost of ¥ 150 and has to pay ¥ 350 to its fixed factors of production. How much of the average total cost is made up of variable cost?
(a) ₹200 (b) ₹50
(c) ₹300 (d) ₹100

Q.99. Firm's average fixed cost is ₹20 at 6 units of output. What will it be at units of output?
(a) ₹60 (b) ₹30
(c) ₹40 (d) ₹20

Q.100.

Output (Units)	Total Cost
0	30
1	40
2	50
3	60

Find Average Fixed Cost of 3 units
(a) 10 (b) 30
(c) 65 (d) 60

Q.101. Long run does not have:

(a) Average Cost (b) Total Cost
(c) Fixed Cost (d) Variable Cost

Q.102. Which of the following curve is not U shaped?
(a) AFC (b) AVC
(c) MC (d) TC.

Q.103. From the following details, find out the average variable cost of 10 units:

Output	0	10	20
Total Cost	₹200	₹400	₹800

(a) ₹40 (b) ₹20 mark
(c) ₹200 (d) ₹400

Q.104. The total cost incurred for 10 units is ¥ 400 and 20 units is ¥ 800. Find the marginal cost.
(a) ₹400 (b) ₹40
(c) ₹200 (d) ₹20

Q.105 Which one of the following is correct?
(a) AFC = AVC + ATC
(b) ATC = AFC - AVC
(c) AVC = AFC + ATC
(d) AFC = ATC - AVC.

Q.106. Calculate AFC of 3 units from the following data:

Unit	0	1	2	3
Total Cost	30	40	50	60

(a) 30 (b) 15
(c) 10 (d) 5

Q.107. Find AFC of 3 units :

Unit	0	1	2	3
Total Cost	15	25	35	45

(a) 5 (b) 10
(c) 15 (d) 25

Q.108. What will be the TVC if we produce 2 units?

Unit	0	1	2
Total Cost	20	37	50

(a) 15 (b) 05
(c) 17 (d) 30

Q.109. The total cost of production of 10 units is ₹200. When production is increased to 20 units its total cost becomes ₹600. What will be its marginal cost.
(a) 400 (b) 40
(c) 4 (d) 30

Q.110.

Unit	0	1	2	3	4
Total Cost	20	30	40	50	60

What will be the AFC at 4 units of output.
(a) 2 (b) 3
(c) 4 (d)5

Q.111. Payment made to outsiders for their goods and services are called:
(a) Opportunity cost (b)Real cost
(c) Explicit cost (d) Implicit cost

Q.112.Direct Cost is also known as:
(a) Indirect Cost (b) Traceable Cost
(c) Opportunity Cost (d) Accounting Cost.

Q.113. Firms AFC is ₹200 at 10 units of output what will be it at 20 units of output?
(a) 500 (b) 100
(c) 150 (d) 200

Q.114. Long run price is also called by the name of _______.
(a) market price (b) normal price
(c) administered price (d) wholesale price

Q.115. What will be the AFC of 2 units according to the table given below:

Output	0	1	2
Total Cost	580	689	850

(a) 105 (b) 135
(c) 235 (d) 290

Q.116. Fixed cost is known as _______ cost
(a) Prime (b) Supplementary
(c) Overhead (d) Direct

Q.117. Average Revenue Curve is also known as ________.

(a) Profit curve (b) Demand curve
(c) Supply curve (d) Average cost curve

Q.118. Supply curve remaining unchanged, an increase in demand will lead to

(a) A fall in price (b) Rise in price
(c) No change in price (d) An increase in supply

Q.119. Find out AFC of 3 unit:

Unit	0	1	2	3
Total Cost	300	1000	2000	3000

(a) 100 (b) 200
(c) 300 (d) 400

Q.120.

Unit	0	1	2
Total Cost	580	1200	1500

Calculate AFC at 2nd unit of output

(a) 235 (b) 290
(c) 310 (d) 920.

Q.121. In the long run all factors are

(a) Fixed
(b) Variable
(c) All factors remain unchanged
(d) None.

Q.122. What is the total cost of production of 20 units, if fixed cost is T 5,000 and variable cost is x2/ - ?

a) 5,400 (b) 5,040
(c) 4,960 (d) 5,020

Q.123. Which of the following is known as Envelop Curve?

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

Q.124. The average fixed cost for producing an output of 6 units of a product by a firm is ¥ 30. The same cost for producing an output of 4 units will be ₹________.

(a) 50 (b) 45
(c) 25 (d) 20

Q.125. Given

Output	0	4	8
Total Cost	20	24	48

What will be the AFC of 4 units of Output

(a) 2 (b) 3
(c) 4 (d) 5

Q.126. Suppose the total cost of production of commodity 'X' is ₹1,25,000 Out of other cost implicit is ₹35,000 and normal profit is ₹25,000 what will be the explicit cost of commodity 'X'?

(a) 60,000 (b) 65,000
(c) 90,000 (d) 80,000

Q.127. What will be the total fixed cost for the production of three units as per the details given below:

Units	0	1	2	3
Total Cost	62 0	94 0	155 5	367 0

(a)620 (b) 640
(c) 1115 (d) 2650

Q.128. Cost in terms of pain, discomfort, disability involved in supplying the various factors of production by their owners are termed as _______.

(a) Aocial cost (b) Explicit cost
(c) Real cost (d) Implicit cost

Q.129. Which of the following is known as the Envelope Curve?

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

Q.130. The cost of resources owned and employed by the entrepreneur himself in his business is termed as cost.

(a) Explicit (b) Implicit
(c) Fixed (d) Variable.

Q.131. A firm will close down in the short period if its average revenue is less than its:

(a) Average cost (b) Average variable cost
(c) Marginal cost (d) Average fixed cost

Q.132. A firm's total cost is T 200 at 5 units of output and T 220 at 6 units of output. The marginal cost of producing 6th unit of output will be

(a) 20 (b) 120
(c) 220 (d) 320.

Q.133. Consider the following data

Units of output	0	1	2	3	4
Total Cost	25	45	60	85	105

The Average Variable Cost (AVC) for an output of 4 units will be :-

(a) ₹20 (b) ₹30
(c) ₹25 (d) ₹26

Q.134 The change in total cost due to one unit change in the output is called cost.

(a) Marginal (b) Average
(c) Average variable (d) Average fixed

Q.135. When AC curve is rising, the MC curve must be _______ to it.

(a) Equal (b) Above
(c) Below (d) Parallel.

Q.136. The Average fixed cost for producing an output of 6 units of a product by a firm is ₹30. The same cost for producing an output of 4 units will be ₹_______.

(a) 50 (b) 45
(c) 25 (d) 20

Q.137. Which of the following cost curve will slope downward and does not touch the x-axis?

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

Q.138. Suppose the total cost production of a commodity 'x' is ₹1,25,000 out of which Implicit cost is ₹35,000 and normal profit is ₹25,000. What would be the explicit cost of commodity x?

(a) ₹90,000 (b) ₹65,000
(c) ₹1,00,000 (d) ₹60,000

Q.139. In which of the following cases opportunity cost concept applies?

(a) Resources have alternative uses
(b) Resources have limited uses
(c) Resources have no use
(d) None of the above.

Q.140. Direct costs are also known as _______.

(a) Traceable costs (b) Indirect costs
(c) Opportunity costs (d) Real costs.

Q.141. Which statement among below is correct in reference in Average Fixed Cost

(a) Never becomes zero
(b) Curve never touches x-axis
(c) Curve never touches y-axis
(d) All of the above.

Q.142. Marginal cost changes due to change in _____ cost.

(a) Total (b) Fixed
(c) Average (d) Variable

Q.143. A firm produces 10 units of a commodity at an average total cost of 200 and with a fixed cost of ¥ 500. Find out the component of average variable cost in the total cost :

(a) ₹300 (b) ₹200
(c) ₹150 (d) ₹100

Q.144. Average total cost to a firm is ₹600 when it produces 10 units of output and ₹640 when the output is 11 units. The MC of the 11th unit is :

(a) ₹340 (b) ₹540
(c) ₹840 (d) ₹1,040

Q.145. Average cost of producing 50 units of any commodity is T 250 and fixed cost is 1,000. What will be the average fixed cost of producing 100 units of the commodity?

(a) ₹10 (b) ₹30
(c) ₹20 (d) ₹05

Q.146. Company produces 10 units of output and incurs T 30 per unit as variable cost and 5 per unit of fixed cost. What will be its total cost of producing 10 units?
(a) ₹300 (b) 35
(c) ₹305 (d) ₹350

Q.147. On the basis of the following data what will be the marginal cost of the 6th unit of output?

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

(a) ₹133 (b) ₹75
(c) ₹80 (d) ₹450

Q.148. The positively sloped (rising) part of the long run average cost curve indicates working of the ________.
(a) Diseconomies of scale
(b) Increasing returns to scale
(c) constant returns to scale
(d) Economies of scale

Q.149. Average fixed cost curve is always:
(a) Declining when output increases
(b) U-Shaped, if there are increasing returns to scale
(c) U-Shaped, if there are decreasing returns to scale
(d) Intersected by marginal cost at its minimum point

Q.150. Planning curve is related to which of the following?
(a) Short run average cost curve
(b) Long run average cost curve
(c) Average variable cost
(d) Average total cost.

Q.151 Using the following data find out the marginal cost (MC) of the sixth unit of output:

Output	0	1	2	3	4	5	6	7
Total cost	48	73	94	114	130	148	168	189

(a) 24 (b) 16
(c) 20 (d) 21

Q.152. Diminishing marginal returns implies
(a) Decreasing average variable costs
(b) Decreasing marginal costs
(c) Increasing marginal costs
(d) Decreasing fixed costs.

Q.153. When the output of a firm increase in the short run, its average fixed cost
(a) Increases
(b) Decreases
(c) Remains constant
(d) First declines and then rises.

Q.154. 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.

Q.155. Fixed cost curve normally:
a) Starts from the origin (b) Is U shaped
(c) Is vertical line (d) Is horizontal line.

Q.156. Rational producer will produce in the stage in which marginal product is positive and :
(a) MP > AP (b) MP = AP
(c) MP < AP (d) MP is zero.

Q.157. The vertical difference between TVC and TC curves is equal to:
(a) MC (b) AVC
(c) TFC (d) None of the above

Q.158. What happens to marginal cost when average cost increases?
(a) Marginal cost is below average cost
(b) Marginal cost is above average cost
(c) Marginal cost is equal to average variable cost
(d) Marginal cost is equal to average cost.

Q.159. If the market price of good is more than the opportunity cost of producing it, then:
(a) The market price of the product will increase in the long run
(b) Producers will increase supply in the long run

(c) Resources will flow away from production of the good, causing supply to decline with the passage of time

(d) The situation will remain unchanged as long as supply and demand remain in balance.

Q.160. A firm has variable cost of ₹1,000 at 5 units of output. If fixed costs are 400, what will be the average total cost at 5 units of output?

(a) 380 (b) 600

(c) 280 (d) 400

Q.161. The average total cost of producing 50 units is ¥ 250 and total fixed cost is 1,000. What is the average fixed cost of producing 100 units?

(a) 5 (b) 30

(c) 20 (d) 10

Q.162. When average fixed cost is ₹20 at 6 units of output, what will it be at units of output?

(a) ₹60 (b) ₹30

(c) ₹40 (d) ₹20

Q.163. Modern industrial units face cost curve due to change in their technology of production.

(a) U shaped (b) L shaped

(c) Dish shaped (d) J shaped

Q.164. The costs which remain fixed over certain range of output but suddenly jump to a new higher level when production goes beyond a given limit are called:

(a) Variable cost (b) Semi- variable cost

(c) Stair- step variable cost (d) Jumping cost

Q.165. A firm producing 9 units of output has an average total cost of ₹200 and has to pay ₹630 to its fixed cost of production. How much of the average total cost is made up of variable cost?

(a) ₹150 (b) ₹130

(c) ₹70 (d) ₹300

Q.166. The cost of one thing in terms of alternative given up is known as:

(a) Opportunity Cost (b) Real Cost

(c) Production Cost (d) Physical Cost.

Q.167. In the short run, when the output of a firm increases, its average fixed cost

(a) Remains constant

(b) Decreases

(c) Increases

(d) First decreases and then rises

Q.168. What will be average variable cost of producing 5 units of blankets as per details given in the following table?

Blankets	1	2	3	4	5
Total Cost	2,575	3,800	4,500	5,300	6,000

(a) ₹500 (b) ₹750

(c) ₹900 (d) ₹1,000

Q.169. Which of the following is/are example(s) of an economic cost?

(a) Wage paid to labourers

(b) Raw materials purchase cost

(c) Interest paid on short term loan

(d) All of the above.

Q.170. Opportunity Cost is:

(a) Marginal cost (b) Variable cost

(c) Total fixed cost (d) None of these.

Q.171. 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

Q.172. Linear homogenous production function is based on

(a) Increasing returns to scale

(b) Decreasing returns to scale

(c) Constant returns to scale

(d) None of the above.

Q.173. Which of the following curve is not U shaped?

(a) AFC (b) MC

(c) AVC (d) TC

Q.174. Unit TC 580 1200 1500 Calculated AFC at 2™ unit of output:

(a) 235 (b) 290

(c) 310 (d) 920

Q.175. Which of the following curves never touch any axis but is downward

(a) Marginal cost curve

(b) Total cost curve

(c) Average fixed cost curve

(d) Average variable cost curve

Q.176. External economies accrue due to ________.

(a) Increasing returns to scale

(b) Increasing returns to factor

(c) Law of variable proportions

(d) LOW cost

Q.177. A firms average fixed cost is ₹20 at 6 units of output what will be at 3 units of output?

(a) ₹60 (d) ₹30

(c) ₹40 (d) ₹20

Q.178. Which of the following is correct?

(a) AFC =AVC + ATC (b) ATC = AFC - AVC

(c) AVC =AFC + ATC (d) AFC = ATC - AVC

Q.179. The vertical difference between TVC and TC curves is equal to:

(a) MC (b) AVC

(c) TFC (d) None of the above.

Q.180. The cost of one thing in terms of alternative given up:

(a) Real cost (b) Production cost

(c) Opportunity cost (d) Physical cost

Q.181. The cost which remains fixed over certain range of output but suddenly jumps to a new higher level when production goes beyond a given limit are called:

(a) Variable cost (b) Semi-variable cost

(c) Stair-step variable cost (d) Jumping cost

Q.182. The slope of Average Fixed cost curve is?

(a) Falls from left to right

(b) Rises from left to right

(c) Parallel to x-axis

(d) Parallel to y-axis

Q.183. Price of a commodity is best expressed as

(a) Exchange value (b) Cost of goods sold

(c) Production cost (d) Nominal value

Q.184. Accounting cost is of Economic cost

(a) Equal to (b) Less than

(c) More than (d) Not Included

Q.185. When AC Curve is at minimum then MC Curve is

(a) Minimum then AC Curve

(b) Equals to AC Curve

(c) Above AC Curve

(d) Less then AC Curve

Q.186. Which of the following equation represents profit maximisation condition?

(a) MC = MR (b) MC > MR

(c) MC < MR (d) None.

Q.187. MC curve of a firm in a perfectly competitive industry depicts?

(a) Demand curve (b) Supply curve

(c) Average cost curve (d) Total cost curve

Q.188. Issues requiring decision making in the context of business are:

(a) How much should be the optimum output at what price should the firm sell?

(b) How will the product be placed in the market?

(c) How to combat the risks and uncertainties involved?

(d) All of the above.

Q.189. Law of production does not include?

(a) Returns to scale

(b) Law of variable proportion

(c) Law of diminishing returns to a factor

(d) Least cost combination factors

Q.190. A firm producing 15 units of output has average cost of ¥ 250 and % 125 as per unit cost for fixed factors of production. Then average variable cost will be

(a) 80 (b) 50

(c) 125 (d) None of the above

Q.191. Which of the following statement is incorrect?

(a) AC is sloping downwards, MC is below AC

(b) AC is sloping downwards, MC must fall

(c) AC is sloping upwards, MC is above AC

(d) MC cuts AC from its lowest point.

Q.192. Diminishing marginal returns implies.

(a) Decreasing average fixed cost

(b) Decreasing average variable cost

(c) Decreasing marginal cost

(d) Increasing marginal cost

Q.193. Opportunity Cost is _______.

(a) Recorded in the book of accounts

(b) Sacrificed alternative

(c) Both (a) and

(d) None of the above

Q.194. Which of the following is true?

(a) TC=TFC+TVC (b) TC +TVC + TFC

(c) 2TC - TVC = TFC (d) None

Q.195. Total Economic Cost = Explicit Cost + Implicit Cost + _________.

(a) Normal Profit (b) Super Normal Profit

(c) Loss (d) None

Q.196. Economic cost of production differs from accounting cost of production

(a) Partially (b) True

(c) False (d) None

Q.197. Which curve is never U- shaped

(a) AFC (b) AVC

(c) AC (d) None

Q.	Ans	Q	Ans	Q	Ans	Q	Ans
1	B	52	B	103	B	154	D
2	B	53	A	104	B	155	D
3	A	54	C	105	D	156	C
4	A	55	C	106	C	157	C
5	A	56	A	107	A	158	B
6	C	57	C	108	D	159	B
7	C	58	D	109	B	160	C
8	C	59	A	110	D	161	D
9	C	60	B	111	C	162	C
10	A	61	C	112	B	163	B
11	A	62	A	113	B	164	C
12	B	63	B	114	B	165	B
13	C	64	B	115	D	166	A
14	B	65	B	116	C	167	B
15	C	66	A	117	B	168	C
16	B	67	C	118	B	169	D
17	A	68	A	119	A	170	D
18	A	69	A	120	B	171	A
19	B	70	A	121	B	172	C
20	C	71	D	122	B	173	A
21	D	72	D	123	C	174	B
22	D	73	A	124	B	175	C
23	B	74	D	125	D	176	A
24	C	75	A	126	B	177	C
25	D	76	B	127	A	178	D
26	D	77	A	128	A	179	C
27	D	78	C	129	C	180	C
28	D	79	D	130	B	181	C
29	B	80	B	131	B	182	A
30	B	81	D	132	A	183	A
31	C	82	A	133	A	184	B
32	B	83	B	134	A	185	B
33	D	84	D	135	B	186	A
34	C	85	C	136	B	187	B
35	D	86	C	137	D	188	D
36	B	87	A	138	B	189	D
37	A	88	D	139	A	190	C
38	A	89	B	140	A	191	B
39	D	90	B	141	D	192	D
40	C	91	A	142	D	193	B
41	A	92	B	143	C	194	A
42	B	93	D	144	D	195	A
43	A	94	A	145	A	196	B
44	C	95	B	146	D	197	A
45	B	96	C	147	C		
46	C	97	C	148	A		
47	D	98	D	149	A		
48	B	99	C	150	B		
49	C	100	A	151	C		
50	A	101	C	152	C		
51	B	102	A	153	B		

Chapter – 4 Market & Its Type

MARKETS BASICS

Q 1. Which of the following statements best describe a "Market"?

(a) Place where Shares and Securities are bought and sold.

(b) Place where Fruits and Vegetables are bought and sold.

(c) Place where Buyers and Sellers meet and bargain over a commodity for a price.

(d) Place where transactions takes place.

Q 2. Which of these is not a feature of Market?

a) Buyers and Sellers.

b) Commodity, Product or Service.

c) Bargaining for a Price

d) Government Regulation and Control

Q 3. Which of these is a feature of Market?

a) Perishable Nature of the commodity

b) Government Regulation and Control

c) One Price for a Product or Service at a given time

d) Scarcity of Resources

Q 4. Which of the following is an element of Market Structure?

(a) Buyers & Sellers

(b) A product or service

(c) Bargaining for a Price

(d) All of the above

Q 5. The Market for ultimate consumers is known as

(a) Whole Sale Market

(b) Retail Market

(c) Unregulated Market

(d) Regulated Market

Q 6. Which of the following types of competition is just a theoretical economic concept, not a realistic case where actual competition and trade take place?

(a) Monopoly

(b) Oligopoly

(c) Perfect Competition

(d) Monopolistic Competition

Q 7. Free Entry / Exit is a characteristic feature of —

(a) Perfect Competition

(b) Monopoly

(c) Monopolistic Competition

(d) (a) and (c)

Q 8. Free Entry / Exit is a not a characteristic feature of —

(a) Perfect Competition

(b) Monopoly

(c) Monopolistic Competition

(d) All the above.

Q 9. Free Entry / Exit is possible in —

(a) short—run (b) long—run

(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 10. Short run price is also known as:

(a) Market price

(b) Showroom price

(c) Maximum retail price

(d) None of these

Q 11. The market for Foodgrains, Cereals, Vegetables, etc. closely resembles —

(a) Perfect Competition

(b) Monopoly

(c) Monopolistic Competition

(d) Oligopoly.

Q 12. Railways is an example of —

(a) Perfect Competition

(b) Monopoly

(c) Monopolistic Competition

(d) Oligopoly.

Q 13. Air Travel Service Industry is an example of —

(a) Perfect Competition

(b) Monopoly

(c) Monopolistic Competition

(d) Oligopoly.

Q 14. Bottled Cold Drinks Industry is an example of —

(a) Perfect Competition

(b) Monopoly

(c) Monopolistic Competition

(d) Oligopoly.

Q 15. Agricultural Goods markets depict characteristics close to —
(a) Perfect Competition
(b) Oligopoly
(c) Monopoly
(d) Monopolistic Competition

Q 16. Which of the following is an Oligopoly?
(a) Mobile Industry (b) Cold Drink
(c) Automobile (d) All of these

Q 17. Toothpaste Manufacturing Industry is an example of
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Oligopoly.

Q 18. Automobile (Cars) Manufacturing Industry is an example of —
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Oligopoly.

Q 19. Toilet Soaps Industry is an example of —
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Oligopoly.

Q 20. Mobile Phone Service Providers is an example of
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Oligopoly.

Q 21. The conditions of Firm Equilibrium, i.e. MC = MR, and MC cuts MR from below, is applicable for —
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) All of the above.

Q 22. What is the other name given for Average Revenue Curve?
(a) Profit Curve (b) Demand Curve
(c) Average Cost Curve (d) Indifference Curve

Q 23. Which of the following is not a characteristic feature common to both Monopolistic Competition and Perfect Competition?
(a) Many Buyers and Sellers
(b) Identical Products
(c) Easy entry and exit of Firms
(d) Firms take other Firms' prices as given

Q 24. The relationship Firm = Industry is applicable for —
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Oligopoly.

Q 25. In which of the following market structures is the demand curve of the market is represented by the demand curve of the Firm?
(a) Monopolistic competition
(b) Perfect Competition
(c) Monopoly
(d) Oligopoly

Q 26. The AR Curve and Industry Demand Curve are same in the case of —
(a) Monopoly
(b) Oligopoly
(c) Perfect Competition
(d) None of the above

Q 27. Why is the Demand Curve of the Market in Monopoly is represented by the Demand Curve of the Firm?
(a) Because there are many Firm in the market
(b) Because there is only one Firm in the market
(c) Because there is only one buyer in the market
(d) Because there are many buyers in the market

Q 28. The relationship Industry = Large Number of Firms, is applicable for —
(a) Perfect Competition

(b) Monopolistic Competition
(c) Monopoly
(d) Both (a) and (b)

Q 29. The relationship Industry = a Few Firms, is applicable for —
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Oligopoly.

Q 30. Which among the following market structures has the highest product differentiation?
(a) Pure or Perfect Competition
(b) Monopolistic Competition
(c) Oligopoly
(d) Monopoly

Q 31. Which among the following market structures has the highest price elasticity?
(a) Pure or Perfect Competition
(b) Monopolistic Competition
(c) Oligopoly
(d) Monopoly

Q 32. Which of the following market forms will never suffer losses in the short run?
(a) Perfect Competition
(b) Oligopoly
(c) Monopoly
(d) None of these

Q 33. Under which of the following market structures is the price lower and output larger?
(a) Perfect Competition
(b) Monopolistic Competition
(c) Monopoly
(d) Oligopoly

Q 34. 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

Q 35. Under which of the following forms of market structure does a Firm has no control over the price of its product
(a) Monopoly
(b) Monopolistic competition
(c) Oligopoly
(d) Perfect Competition

Q 36. A market structure in which many Firms sell products that are similar but not identical is known as —
(a) Monopolistic Competition A
(b) Monopoly
(c) Perfect Competition
(d) Oligopoly

Q 37. Which of the following types of market structure is the exact opposite of Perfect Competition?
(a) Monopolistic competition
(b) Monopoly
(c) Oligopoly
(d) Duopoly

Q 38. Which of the following statements about Price and Marginal Cost (MC) in competitive and monopolized markets is true?
(a) In Competitive Markets, Price = MC; in monopolized Markets, Price > MC.
(b) In Competitive Markets, Price = MC; in Monopolized Markets, Price = MC.
(c) In Competitive Markets, Price > MC; in Monopolized markets, Price > MC.
(d) In Competitive Markets, Price > MC; in Monopolized markets, Price = MC.

Q 39. In which of the following types of market structures can a Firm earn abnormal profits in the long run?
(a) Perfect Competition
(b) Monopolistic competition
(c) Monopoly
(d) None of the above

Q 40. *In which of the following types of market structure, do Firms produce homogeneous products?*
(a) Monopoly
(b) Differentiated Oligopoly
(c) Perfect Competition
(d) Monopolistic Competition

Q 41. *Which of the following statements is incorrect?*
(a) Even Monopolist can earn losses
(b) Firms in a perfectly competitive market are Price Takers.
(c) It is always beneficial for a Firm in a Perfectly Competitive Market to discriminate prices.
(d) Kinked demand curve is related to an Oligopolistic Market.

Q 42. *Which of the following statements is not true with respect to the long run?*
(a) A Firm in a monopolistically competitive industry earns only normal profits in the long run
(b) A Monopolist does not make losses
(c) A Perfectly Competitive Firm earns only normal profits in the long run
(d) Monopolistically Competitive Firms will be producing at minimum average cost

Q 43. *P = MR = MC = AC = is the condition of —*
(a) Long run equilibrium for a Firm under Perfect Competition
(b) Long run disequilibrium for a Firm
(c) Long run equilibrium for a Firm under Monopoly
(d) Long run equilibrium for a Firm under Monopolistic competition

Q 44. *Which of the following features is not seen in Imperfect Competition?*
(a) Few Sellers
(b) Product Differentiation
(c) Price wars
(d) All goods are Homogenous

Q 45. *Market situation in which there are only two Firms in the market*
(a) Monoposony (b) Bilateral Monopoly
(c) Duopoly (d) Oligopoly

Q 46. *A market characterized by a Single Buyer of a product or service.*
(a) Monopsony (b) Bilateral Monopoly
(c) Duopoly (d) Oligopoly

Q 47. *A market characterized by a small number of large buyers.*
(a) Monoposony (b) Bilateral Monopoly
(c) Duopoly (d) Oligopsony

Q 48. *A market structure in which there is only a Single Buyer and a Single Seller*
(a) Monoposony (b) Bilateral Monopoly
(c) Duopoly (d) Oligopsony

Q 49. *Duopoly is a market situation in which —*
(a) there are only two Firms in the market
(b) there is a Single Buyer of a product or service
(c) there is only a Single Buyer and a Single Seller
(d) none of the above

Q 50. *A person who charges different prices in different sub—markets is —*
(a) Discriminating Monopolists
(b) Simple Monopolists
(c) Selective Monopolists
(d) None of the above

PERFECT COMPETITION

Q 51. *In India which of the following best describes a perfectly competitive market?*
(a) Sugarcane Cultivation / Agriculture
(b) Indian Railways
(c) Toilet Soap Industry
(d) Electricity Distribution

Q 52. *Under Pure Competition, there are Sellers.*
(a) Many (b) Only one
(c) A Few (d) No

Q 53. *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

Q 54. Which of the following is not true about perfect competition?
(a) Purchase and sale of homogeneous goods
(b) Mobility of factors of production
(c) Free entry and exit
(d) Presence of advertisement

Q 55. Under Perfect Competition, the product is —
(a) Differentiated
(b) Homogeneous
(c) Influenced by Brand Name
(d) Always Intangible

Q 56. Under Perfect Competition, each Firm is a
(a) Price Maker
(b) Price Taker
(c) Price Maker for its own product.
(d) All of the above.

Q 57. Price under perfect competition is determined by —
(a) Fir (b) Industry
(c) Government (d) Society

Q 58. In a perfect competition, who set the prices:
(a) Buyers
(b) Sellers
(c) Both buyers and sellers
(d) Government

Q 59. In a Perfect Competitive Market —
(a) Firm is the Price—Giver and Industry is the Price Taker
(b) Firm is the Price Taker and industry is the Price—Giver
(c) Both are Price Takers
(d) none of the above

Q 60. The distinction between a single firm & an Industry vanishes in which of the following market condition
(a) Monopoly
(b) Perfect competition
(c) Monopolistic competition
(d) Imperfect competition

Q 61. How are prices determined under Perfect Competition?
(a) At the equilibrium price of Firm
(b) At the equilibrium prices of Industry
(c) At the point where MR = MC
(d) All of these

Q 62. Under Perfect Competition, each Firm's control over price is —
(a) Nil
(b) Full and Absolute
(c) Subject to Competing Firms' Strategies
(d) None of the above.

Q 63. Under Perfect Competition, Price Elasticity of Demand is
(a) Nil (b) Less Elastic
(c) More Elastic (d) Infinity

Q 64. Under Perfect Competition, the Firm's Demand Curve is
(a) Horizontal Line, parallel to X Axis
(b) Vertical Line, parallel to Y Axis
(c) Negatively Sloped
(d) Kinked.

Q 65. In India, the Milk Market resembles a perfectly competitive industry. If the industry is an increasing cost industry, the long run supply curve of the industry
(a) Slopes upward to the right
(b) Slopes downward to the right
(c) Would be a vertical straight line
(d) Would be horizontal straight line

Q 66. Under Perfect Competition, a Firm can earn in the long—run.
(a) Normal Profits only
(b) Super Normal Profits
(c) Losses
(d) All of the above.

Q 67. Under Perfect Competition, in the long—run, a Firm
(a) will not have excess capacity.
(b) may have excess capacity
(c) has no capacity at all

(d) will leave the industry.

Q 68. Under Perfect Competition, in the long—run, a Firm
(a) will always be a Optimal Firm.
(b) will never be an Optimal Firm.
(c) may or may not be an Optimal Firm.
(d) will leave the industry.

Q 69. Which of these is not a feature of Perfect Competition?
(a) Large Number of Buyers & Sellers
(b) Homogeneous Products
(c) Free Entry / Exit
(d) Preference of Consumers towards one Supplier

Q 70. Which of the following is a feature of Perfect Competition?
(a) Firms are free to produce any number of units of different commodities
(b) Firms are free to enter and exit from the industry
(c) Firms are free to produce any type of a commodity
(d) None of the above

Q 71. One of the essential conditions Perfect Competition is —
(a) Product Differentiation
(b) Multiplicity of prices for identical product at any one time
(c) Many Sellers and few Buyers
(d) Only one price for identical goods at any one time

Q 72. Which of the following is true about Perfect Competition?
(a) Firms can enter freely in the market but it is difficult to exit from the market
(b) Firms face difficulty in entering the market, but Firms can freely exit from the market
(c) Entry and exit in the market is highly restricted
(d) Firms are free to enter and exit the market

Q 73. Which of the following statements regarding Perfect Competition is false?
(a) Supply and Demand forces determine the price of a commodity
(b) All Buyers in the Market are always in position to influence the market
(c) In the short run, the Firm takes Market Price as given
(d) Considering the Market Price, Firm adjusts the level of output to maximize profits

Q 74. Which of these is not a feature of Perfect Competition?
(a) Restriction in Entry of new Firms
(b) Perfect Knowledge
(c) Efficient Transportation Facilities
(d) Uniform Market Price

Q 75. Which of the following is not a condition of Perfect Competition?
(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

Q 76. 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

Q 77. Which of the following is not a characteristic of a Perfectly Competitive Market?
(a) Large number of Buyers and Sellers
(b) Homogeneous Product
(c) Free entry and exit of Firms
(d) Presence of high transportation costs

Q 78. Which of the following is not a characteristic feature of Perfect Competition?
(a) All the sellers sell at the same price
(b) All the products are homogenous
(c) Customers have no bargaining power
(d) Customers have no purchasing power

Q 79. Which of the following statements regarding Perfect Competition is false?
(a) The Marginal Revenue Curve is a straight line

(b) In the short run, Fixed Costs remain constant and cannot be changed
(c) The Firm becomes a Price—Taker and tries to achieve equilibrium
(d) Marginal Revenue is more than the price

Q 80. Under Perfect Competition, all output can be sold —
(a) at different prices
(b) at the same price only
(c) at zero price
(d) only when Buyers are willing to buy.

Q 81. Under Perfect Competition, Demand (D) =
(a) Average Revenue (AR)
(b) Marginal Revenue (MR)
(c) Price (P)
(d) All of the above

Q 82. Under Perfect Competition price of the Product
(a) can be controlled by individual Firm
(b) cannot be controlled by individual Firm
(c) can be controlled within certain limit by individual Firm
(d) none of the above

Q 83. In Perfect Competition, since the Firm is a price—taker, the Curve is a Straight Line.
(a) Marginal Cost
(b) Total Cost
(c) Total Revenue
(d) Marginal Revenue

Q 84. 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.

Q 85. Which of the following is not a characteristic of a "Price Taker"?
(a) TR = P xQ
(b) AR = Price
(c) Negatively — sloped Demand Curve
(d) Marginal Revenue = Price

Q 86. 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 20 la kh
(d) The individual Firm is unable to affect market price through its output decisions

Q 87. For the 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

Q 88. 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

Q 89. A Perfectly Competitive Firm Producer has control over —
(a) Price
(b) Production as well as price
(c) Control over production, price and consumers
(d) None of the above

Q 90. Under Perfect Competition, Demand (D) = AR = MR = Price. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 91. Under Perfect Competition, Total Revenue is equal to Marginal Revenue times the quantity sold. This statement is —

(a) True (b) False
(c) Partially True (d) None of the above

Q 92. 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

Q 93. A Competitive Firm maximizes profit at the output level where —
(a) Price equals Marginal Cost.
(b) Slope of the Firm's profit function is equal to zero.
(c) Marginal Revenue equals Marginal Cost.
(d) All of the above.

Q 94. In Perfect Competition, when MC=MR, Profit is
(a) Maximum (b) Average
(c) Zero (d) Not Possible

Q 95. In Perfect Competition, a Firm maximizing its profits will set its output at that level where —
(a) Average Variable Cost = Price
(b) Marginal Cost = Price
(c) Fixed Cost = Price
(d) Average Fixed Cost = Price

Q 96. Which of the following market situations explains Marginal Cost equal to Price for attaining equilibrium?
(a) Perfect Competition.
(b) Monopoly
(c) Oligopoly.
(d) Monopolistic Competition.

Q 97. In a Perfectly Competitive Market, if MC = Marginal Cost, MR = Marginal Revenue, AR = Average Cost and P = Price, the first order condition for profit maximization will be —
(a) MC< MR<AR< P (b) MC= MR=AR=P
(c) MC> MR>AR> P (d) MC=MR>AR=P

Q 98. Under the Perfect Competition a Firm will be in Equilibrium when —
(a) MC = MR
(b) MC cuts MR from below
(c) MC is rising when it cuts MR
(d) All of the above

Q 99. Under Perfect Competition, a Firm can earn in the short—run.
(a) Normal Profits only (b) Super Normal Profits
(c) Losses (d) All of the above.

Q 100. Under Perfect Competition, in the short—run, the condition AR = MR = MC = AC, means that the Firm is earning —
(a) Normal Profits only
(b) Super Normal Profits
(c) Losses
(d) All of the above.

Q 101. Under Perfect Competition, in the short—run, if AR > AC at the point when MC = MR, it means that the Firm —
(a) Normal Profits only
(b) Super Normal Profits
(c) Losses
(d) All of the above.

Q 102. Under Perfect Competition, in the short—run, if AR < AC at the point when MC = MR, it means that the Firm —
(a) Normal Profits only
(b) Super Normal Profits
(c) Losses
(d) All of the above.

Q 103. 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) shut down.
(d) continue to operate as long as it covers its variable cost.

Q 104. Under Perfect Competition, in the short—run, the condition for shut—down is —
(a) AR < AC (b) AR > AC
(c) AR > AVC (d) AR < AVC

Q 105. Which of the following is true with reference to shut down point in a Perfect Competition?
(a) The profits of the Firm equals its total costs
(b) At that output level the price covers the average fixed costs of the Firm
(c) At that output level the price covers the average variable costs of the Firm
(d) At that output level the price covers the average total costs of the Firm

Q 106. If the price falls below the Minimum Average Variable Cost, a Firm operating under Perfect Competition should, in the short run,
(a) Produce an output where MR = MC
(b) Reduce its output so as to increase the price and profits
(c) Stop production (output) until price increases
(d) Continue to produce in the short run, but not in long run

Q 107. In Perfect Competition, a Firm increases profit when exceeds
(a) Total Cost, Total Revenue
(b) Marginal Cost, Marginal Revenue
(c) Total Revenue, Total Fixed Cost
(d) Average Revenue, Average Cost

Q 108. In a perfectly competitive markets, if MR is greater than MC then a firm should—
(a) Increase its production
(b) Decrease its production
(c) Increase in sales
(d) Decrease in sales

Q 109. In Perfect Competition, a Firm's Profit diminishes when ________exceeds
(a) Marginal Revenue, Marginal Cost
(b) Marginal Cost, Marginal Revenue
(c) Marginal Revenue, Average Cost
(d) Average Revenue, Average Cost

Q 110. In a perfectly competitive market, in the long run, competitive prices equal the minimum possible cost.
(a) Marginal
(b) Variable
(c) Total
(d) Average

Q 111. Under Perfect Competition, the burden of a specific tax would be borne by —
(a) Seller
(b) Buyer
(c) Seller and buyer equally
(d) Cannot say

Q 112. Under Perfect Competition, in the long—run, the LAC Curve will be to the AR Curve.
(a) tangent (b) perpendicular
(c) parallel (d) coinciding

Q 113. Under Perfect Competition, in the long—run, the ______ will be tangent to the AR Curve.
(a) LAC Curve (b) LMC Curve
(c) Demand (d) Supply

Q 114. Under Perfect Competition, in the long—run, the industry is said to be in equilibrium, if —
(a) All the Firms are earning normal profits only.
(b) There is no further entry or exit of Firms to / from the market.
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 115. Under Perfect Competition, in the long—run, if SMC = SAC = LAC = LMC = LMR = LAR = Price, then the industry is said to be —
(a) Growing
(b) in troubled times
(c) in Equilibrium
(d) inefficient

Q 116. In the long—run, Industry Equilibrium is achieved if SMC = SAC = LAC = LMC = LMR = LAR = Price. This condition is applicable for —
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Oligopoly.

Q 117. Under Perfect Competition, the condition for Industry Equilibrium, i.e. SMC = SAC = LAC = LMC = LMR = LAR = Price, is applicable for —

(a) short—run (b) long—run
(c) Both (a) and (b) (d) Neither (a) nor (b)

Q 118. When the Perfectly Competitive Firm and industry are in long run equilibrium then —
(a) P=MR=SAC=LAC.
(b) D=MR=SMC=LMC.
(c) P=MR=Lowest point on the LAC curve.
(d) All of the above.

Q 119. In the long run, the Pure Competition Firm can have
(a) Super Normal Profit (b) Normal Profits
(c) Losses (d) All of these

Q 120. In Long run which of the following is true for a perfect competition
(a) Industry is operating at minimum point of AC curve
(b) MC is greater than MR
(c) AFC is less than AVC
(d) Price is less than AC

Q 121. In Perfect Competition, in the long run —
(a) There are large Profits for the Firm
(b) There are large Losses for the Firm
(c) There is no super—normal profit and no loss for the Firm
(d) There are negligible profits for the Firm

Q 122. What are the conditions for long—run equilibrium of the Competitive Firm?
(a) LMC = LAC = P (b) SMC = SAC = LMC
(c) P = MR (d) All of these

Q 123. Under Perfect Competition, in the long—run, Output is produced at —
(a) minimum feasible cost
(b) maximum cost
(c) optimal cost
(d) zero cost

Q 124. Under Perfect Competition, in the long—run, resources will be —
(a) fully used (b) partially used
(c) not used at all (d) wasted

Q 125. Excess Capacity is not found under —
(a) Monopoly
(b) Monopolistic Competition
(c) Perfect Competition.
(d) Oligopoly.

Q 126. Under Perfect Competition, the Firm's AR and MR Curve will be the same as —
(a) Supply Curve
(b) Demand Curve
(c) Production Possibility Curve
(d) Indifference Curve

Q 127. Under Perfect Competition, the Firm's Demand Curve will be the same as —
(a) Marginal Revenue (MR) Curve
(b) Average Revenue (AR) Curve
(c) Both (a) and (b)
(d) Neither (a) nor (b)

Q 128. Under Perfect Competition, the Firm's MC Curve will be the same as —
(a) Supply Curve
(b) Demand Curve
(c) Production Possibility Curve
(d) Indifference Curve

Q 129. Normally, in the short run, the supply curve of a perfectly competitive Firm slopes
(a) Downward from left to right
(b) Upward from right to left
(c) Upward from left to right
(d) Downward from right to left

Q 130. A Purely Competitive Firm's Supply Schedule in the short run is determined by —
(a) Its Average Revenue
(b) Its Marginal Revenue
(c) Its Marginal Utility for money curve
(d) Its Marginal Cost curve

Q 131. In Perfect Competition, in the long run, if a new Firm enters the industry, the Supply Curve shifts to the right resulting in —
(a) Fall in Price (b) Rise in Price
(c) Reduction in Supply (d) No change in Price

A Competitive Firm sells its product at Market Price of Z 51 per unit. The Fixed Cost is 300 and Variable Cost for different level of production are shown in the following table. Answer the following questions

Quantity	Variable Cost	Fixed Cost	Total Cost	AVC	ATC	MC
0						
10	470					
20	980					
30	1850					
40	3400					

Q 132. When production is 30 units, the Average Variable Cost is —

(a) 70.6 (b) 60.6

(c) 61.6 (d) 71.6

Q 133. To maximize profit, the Firm should produce —

(a) 30 units (b) 10 units

(c) 20 units (d) 40 units

Q 134. If the Market Price drops from ₹ 51 to ₹ 47, the Firm should —

(a) Close down (b) Produce 10 units

(c) Produce 30 units (d) Produce 20 units

Monopoly

Q 135. Under Monopoly, the product is —

(a) Differentiated (b) Homogeneous

(c) Necessity Goods (d) Always Intangible

Q 136. In Monopoly, entry of new Firms —

(a) is restricted at all times

(b) is possible only in short—run

(c) is possible only in long—run

(d) both (b) and (c)

Q 137. Under Monopoly, each Firm is a

(a) Price Maker

(b) Price Taker

(c) Price Maker for its own product.

(d) All of the above.

Q 138. Monopolist can control only

(a) Price (b) Demand

(c) Utility (d) Both (a) & (b)

Q 139. Which of the following is false regarding Monopoly?{Omit this Question}

(a) Firm is a price taker

(b) Unique product

(c) Single Seller

(d) None of the above

Q 140. Under which of the followings forms of market structure does a firm has very considerable control over the price of its product?

(a) Monopoly

(b) Perfect competition

(c) Monopolistic competition

(d) Oligopoly

Q 141. Which of the following best describes Monopoly?

(a) An indisputable market leader in an industry

(b) Only a single buyer in the market

(c) A single seller with large control over the price in the industry

(d) Only a single seller with complete control over the industry

Q 142. In India, Monopoly exists in the following industry —

(a) Courier Services

(b) Internet Services providing industry

(c) Rail Transportation

(d) Toilet Soaps Industry

Q 143. A Market in which a Single Seller is required for efficient production is called —

(a) Regulated Industry

(b) Natural Monopoly

(c) Legal Monopoly

(d) Contestable Market

Q 144. If the Electricity Market is a Natural Monopoly, it is preferred to have a single producer rather than several small producers because —

(a) Marginal Cost is maximized
(b) Marginal Revenue is maximized
(c) Average Total Cost is minimized
(d) Profits are maximized

Q 145. By Imperfect Monopoly, we mean —
(a) It is possible to substitute the Monopolized product with another monopolized product
(b) Entry of new Firms is possible to produce the same product
(c) The amount of output produced is very small
(d) None of the above

Q 146. Under Monopoly, each Firm's control over price is —
a) Nil
b) Full and Absolute
c) Subject to Competing Firms' Strategies
d) None of the above.

Q 147. In case of a profit maximizing Monopolist, what point determines the Selling Price?
(a) Point where marginal cost equals average revenue
(b) Point where average cost equals marginal revenue
(c) Point where average cost equals average revenue
(d) Point where marginal cost equals marginal revenue

Q 148. Under Monopoly, Price Elasticity of Demand is
(a) Nil (b) Less Elastic
(c) More Elastic (d) Infinity

Q 149. Under Monopoly, the Firm's Demand Curve is
(a) Horizontal Line, parallel to X Axis
(b) Vertical Line, parallel to Y Axis
(c) Negatively Sloped
(d) Kinked.

Q 150. A Monopolist who faces a negatively sloped demand curve operates in the region where the elasticity of demand is —
(a) Less than one (b) Equal to one
(c) Greater than one (d) Between zero and one

Q 151. 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.

Q 152. Under Monopoly, a Firm can earn in the long-run.
(a) Normal Profits only
(b) Super Normal Profits
(c) Either (a) or (b)
(d) Losses

Q 153. In long-run a monopolist always earn profits
(a) Normal (b) Abnormal
(c) Zero profit (d) Loss

Q 154. In the short run, the Monopolist —
(a) Earns Normal Profits
(b) Earns Super Normal Profits
(c) Incurs losses
(d) Any of these

Q 155. Abnormal profits exists in the long run only under
(a) Monopoly
(b) Perfect competition
(c) Monopolistic competition
(d) Oligopoly

Q 156. Under Monopoly, in the long—run, a Firm —
(a) will not have excess capacity.
(b) may have excess capacity
(c) has no capacity at all
(d) will leave the industry.

Q 157. Under Monopoly, in the long—run, a Firm —
(a) will always be a Optimal Firm.
(b) will never be an Optimal Firm.
(c) may or may not be an Optimal Firm.
(d) will leave the industry.

Q 158. 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.

Q 159. The degree of Monopoly Power is measured in terms of difference between —
(a) Marginal Cost and Price
(b) Average Cost and Average Revenue
(c) Marginal Cost and Average Cost
(d) Marginal Revenue and Average Cost

Q 160. Which of these is not a feature of Monopoly? .
(a) Many Sellers (b) Many Buyers
(c) No substitutes (d) Firm = Industry

Q 161. Which of these is not a feature of Monopoly?
(a) Single Seller (b) Firm = Industry
(c) No substitutes (d) Elasticity of Demand = 0

Q 162. Which of these does not apply to Monopoly?
(a) Single Seller
(b) Firm = Industry
(c) Free Entry and Exit of Firms
(d) No substitutes

Q 163. Which of the following is not the characteristic of Monopoly?
(a) Many Buyers
(b) Heterogeneous Products
(c) Free Entry of new Firms
(d) Both b & c

Q 164. Which of the following features is not associated with a Monopoly market structure?
(a) There is only one seller in the market
(b) There are no close substitutes for the product
(c) There are barriers to entry
(d) There are no close complements for the product

Q 165. All of the following are characteristics of a Monopoly except —
(a) There is a single Firm
(b) The Firm is a Price Taker
(c) The existence of some advertising
(d) The Firm produces a unique product

Q 166. Economics of Scale allows the Monopolist to set a ________ price than any new entrant.
(a) Higher
(b) Lower
(c) Economics of scale does not influence the price
(d) At the existing market rate

Q 167. In Monopoly Market, the product has —
(a) Perfect Substitutes
(b) No Close Substitutes
(c) the same feature as Giffen Goods
(d) None of the above

Q 168. Under Monopoly, in the short—run, the Firm can never make Losses. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 169. Under monopoly which of the following are correct—
(a) AR&MR both are downward sloping
(b) MR lies half way between AR & Y axis
(c) MR can be zero or negative
(d) all of the above

Q 170. Equilibrium Price of a Monopolist is -
(a) Less than Marginal Cost
(b) Equal to Marginal Cost
(c) Equal to Marginal Revenue
(d) More than Marginal Cost

Q 171. A Monopolist is able to maximize his profits when —
(a) His output is maximum
(b) He charges a high price
(c) His average cost is minimum
(d) His Marginal Cost is equal to Marginal Revenue

Q 172. If Marginal Revenue exceeds Marginal Cost, a Monopolist should —
(a) increase output.
(b) decrease output.
(c) keep output the same because profits are maximized when Marginal Revenue exceeds Marginal Cost.
(d) raise the price.

Q 173. Under Monopoly, in the short—run, if AR > AC at the point when MC = MR, it means that the Firm —
(a) Normal Profits only
(b) Super Normal Profits

(c) Losses
(d) All of the above.

Q 174. Under Monopoly, in the short—run, if AR < AC at the point when MC = MR, it means that the Firm —
(a) Normal Profits only
(b) Super Normal Profits
(c) Losses
(d) All of the above.

Q 175. Under Monopoly, in the short—run, the Firm will never shut—down. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 176. Under Monopoly, in the short—run, the condition for shut—down is —
(a) AR < AC (b) AR > AC
(c) AR > AVC (d) AR < AVC

Q 177. If a Monopolist is operating at a production level where Marginal Cost is 10 and Marginal Revenue is 25, what action you would suggest to him?
(a) To reduce the price to 20
(b) To increase the costs by ' 4
(c) To increase output till Marginal Revenue would equal Marginal Cost
(d) To stop production

Q 178. When different prices are charged by the Producer, from different customers, it is called
(a) Demand Supply Equilibrium
(b) Price Discrimination
(c) Optimum Price Search
(d) Profiteering

Q 179. A Monopolist who is selling in two markets in which demand is not 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.

Q 180. Price Discrimination in a Monopoly is described as —
(a) Same product selling at different prices since the costs of production are different
(b) Same product selling at different prices though the costs of production are same
(c) Different products having same price though costs of production are same
(d) Different products having different prices since costs of production are different

Q 181. Objectives of price discrimination in international market is—
(a) To capture foreign markets
(b) To dispose of surplus stock
(c) To earn maximum profit
(d) All of the these

Q 182. Price discrimination will not be profitable if elasticity of demand is______ in different markets.
(a) Uniform (b) Different
(c) Less (d) Zero

Q 183. 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

Q 184. Which of these is not a pre—requisite for Price Discrimination?
(a) Seller's Control over the supply of his product
(b) Market Segmentation
(c) Differing Elasticity in various market segments
(d) Different versions of the same product

Q 185. The price discrimination under monopoly will be possible under which of the following conditions?
(a) The seller has no control over the supply of his product
(b) The market has the same conditions all over
(c) The price elasticity of demand is different in different markets
(d) The price elasticity of demand is uniform

Q 186. Which of these is a pre—requisite for Price Discrimination?
(a) Divisibility of Market into segments
(b) No scope of re—sale between segments
(c) Differing Elasticity in various market segments
(d) All of the above

Q 187. Which of the following is a condition which makes Price Discrimination possible?
(a) The market must be divided into sub markets with different price elasticities
(b) There has to be an effective separation of the submarkets
(c) Size of the submarkets should be very large
(d) Both a and b above

Q 188. Barriers to entry like__________allows the Monopolist to charge a price much below then the price of new entrant, thereby driving the new entrant out of business.
(a) Economics of Scale
(b) Product Differentiation
(c) Price Discrimination
(d) High Quality Product

Q 189. Why is first degree price discrimination termed as the extreme form of price discrimination —
(a) All the Firms in the industry undertake price discrimination
(b) Firms in the industry discriminate in price for almost all the products they are producing
(c) Firms earn the least profit in this type of discrimination; they are just able to cover the cost
(d) In this type of discrimination Firms charge the consumers the maximum price

Q 190. Which of the following statements in not true about a discriminating Monopolist?
(a) He operates in more than one market
(b) He makes more profit because he discriminates
(c) He maximizes his profits in each market
(d) He charges different prices in each market

Q 191. Under Price Discrimination, the Producer Firm can charge higher prices from a market, if Price Elasticity
(e) —

(a) $e = 1$	(b) $e < 1$
(c) $e > 1$	(d) $e = 0$

Q 192. Under Price Discrimination, the Producer Firm may charge lower prices from a market, if Price Elasticity (e)

(a) $e = 1$	(b) $e < 1$
(c) $e > 1$	(d) $e = 0$

Q 193. For price discrimination to be successful, the elasticity of demand for the commodity in the two markets, should be:{Omit this question}
(a) Same
(b) different
(c) Constant
(d) Zero

Q 194. Price Discrimination is not possible if the market is an indivisible whole of Buyers. This statement is —
(a) True
(b) False
(c) Partially True
(d) None of the above

Q 195. For practicing Price Discrimination, the Seller should be able to divide his market into two or more sub—markets. The statement is —
(a) True
(b) False
(c) Partially True
(d) None of the above

Q 196. Price Discrimination is possible —
(a) Only under Monopoly situation
(b) Under any market form
(c) Only under Oligopoly
(d) Only under Perfect Competition

Q 197. Discriminating Monopoly is possible if two markets have
(a) Rising Cost Curves
(b) Rising and declining Cost Curves
(c) Different Elasticities of Demand
(d) Equal Elasticities of Demand

Q 198. Which of the following is false with reference to first—degree price discrimination?

(a) The Monopolist will be able to extract entire Consumer's Surplus
(b) The price of each unit will be different
(c) By following first degree price discrimination, the Monopolist will earn higher profits than he would have earned by adopting a single price
(d) The price of the first unit will be less than that of the subsequent units

Monopolistic Competition

Q 199. Under Monopolistic Competition, there are ________ Sellers.

(a) Many (b) Only one
(c) A Few (d) No

Q 200. Under Monopolistic Competition, the product is

(a) Differentiated
(b) Homogeneous
(c) Necessity Goods
(d) Always Intangible

Q 201. A market structure in which many firms sell product that are similar, but not identical.

(a) Monopolistic Competition
(b) Monopoly
(c) Perfect Competition
(d) Oligopoly

Q 202. Selling outlay is an essential part of which of the following market situation

(a) Monopolistic Competition
(b) Perfect Competition
(c) Monopoly
(d) Pure Competition

Q 203. Under Monopolistic Competition, each Firm is a ________

(a) Price Maker
(b) Price Taker
(c) Price Maker for its own product.
(d) All of the above.

Q 204. Under Monopolistic Competition, each Firm's control over price is —

(a) Nil
(b) Full and Absolute
(c) Reasonable
(d) None of the above.

Q 205. Under Monopolistic Competition, Price Elasticity of Demand is —

(a) Nil (b) Less Elastic
(c) More Elastic (d) Infinity

Q 206. Under Monopolistic Competition, the Firm's Demand Curve is —

(a) Horizontal Line, parallel to X Axis
(b) Vertical Line, parallel to Y Axis
(c) Negatively Sloped
(d) Kinked.

Q 207. Under Monopolistic Competition, a Firm can earn ________ in the long—run.

(a) Normal Profits only (b) Super Normal Profits
(c) Losses (d) All of the above.

Q 208. Which of the following markets has the concept of group equilibrium in long—run?

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

Q 209. 'Excess Capacity' is the essential characteristic of the Firm in the market form of —

(a) Monopoly
(b) Perfect Competition
(c) Monopolistic Competition
(d) Oligopoly

Q 210. on-price competition in popular sense called —

(a) Monopoly market
(b) Oligopoly market
(c) Monopolistic competition
(d) Perfect competition

Q 211. Which of these does not apply to Monopolistic Competition?
(a) Large Number of Buyers
(b) Large Number of Sellers
(c) Product Differentiation
(d) Price Competition

Q 212. Which of these does not apply to Monopolistic Competition?
(a) Product Differentiation
(b) Free entry /exit
(c) Large Number of Buyers
(d) Single Seller

Q 213. Which of the following is not a feature of Monopolistic Competition?
(a) Large Number of Sellers
(b) Product differentiation
(c) Non—Price competition
(d) None of these

Q 214. Which of the following is not a characteristic feature of Monopolistic Competition?
(a) Many Buyers and Sellers
(b) Identical Products
(c) Easy entry and exit of Firms
(d) Firms take other Firms' prices as given

Q 215. Which of these applies to Monopolistic Competition?
(a) Price Competition
(b) Restrictions in entry /exit
(c) Large Number of Sellers
(d) Homogeneous Product

Q 216. Under Monopolistic Competition, each Seller tries to develop Brand Loyalty for his product. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 217. The sale of branded articles is common in a situation of
(a) Excess Capacity.
(b) Monopolistic Competition.
(c) Monopoly.
(d) Pure Competition.

Q 218. A Firm under Monopolistic Competition advertises —
(a) to compete successfully with the rival Firms
(b) to lower cost of production
(c) to increase sales and profit
(d) because it cannot raise price

Q 219. Through more advertising, a monopolistically competitive Firm has successfully created more demand for its product. It would have resulted in shifting of —
(a) AC Curve upward
(b) MR Curve to the left
(c) AC Curve upward and MR curve to the left
(d) AC Curve upward and MR curve to the right

Q 220. Under Monopolistic Competition, Price Discrimination is not possible at all. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 221. Which of these does not apply to Monopolistic Competition?
(a) Aggressive Advertising and Publicity
(b) Product improvement and Development
(c) Price Competition
(d) Efficient after—sales service

Q 222. Under Monopolistic Competition, in the short—run, the Firm can never make Losses. This statement is —
(a) True (b) False
(c) Partially True (d) None of the above

Q 223. Under Monopolistic Competition, the Firm can earn __________ in the short—run.
(a) Normal Profits only
(b) Super Normal Profits
(c) Losses
(d) All of the above.

Q 224. In short run, a Firm in Monopolistic Competition —
(a) always earns profits
(b) incurs losses
(c) earns normal profit only

(d) may earn normal profit, super normal profit or incur losses

Q 225. In long—run, all Firms in Monopolistic Competition —

(a) earn super normal profits
(b) earn normal profits
(c) incur losses
(d) may earn super normal profit, normal profit or in incur losses

Q 226. In the short run equilibrium of a Firm in Monopolistic Competition, which Curve is U shaped?

(a) AR (b) AC
(c) MR (d) MC

Q 227. Under Monopolistic Competition, in the short—run, the condition AR = MR = MC = AC, means that the Firm is earning —

(a) Normal Profits only (b) Super Normal Profits
(c) Losses (d) All of the above.

Q 228. In Monopolistic Competition, the long—run equilibrium price will be equal to —

(a) Marginal Revenue
(b) Average Cost
(c) Marginal Cost
(d) Both (a) and (c)

Q 229. Under Monopolistic Competition, in the long—run, if MC = MR and LAC = LAR, then the industry is said to be —

(a) Growing (b) in troubled times
(c) in Equilibrium (d) inefficient

Q 230. In the long—run, Industry Equilibrium is achieved in Monopolistic Competition only at the lowest point of LAC Curve. This statement is

(a) True
(b) False
(c) Partially True
(d) None of the above

Q 231. In Monopolistic Competition, a Firm is in long run equilibrium —{Omit this Question}

(a) at the minimum point of the LAC Curve.
(b) in the declining segment of the LAC Curve.
(c) In the rising segment of the LAC Curve.
(d) when price is equal to Marginal Cost.

Q 232. Under Monopolistic Competition, in the long—run, resources —

(a) will be fully used
(b) may be partially used
(c) may not be used at all
(d) will not be required at all

Q 233. 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

Q 234. The long—run equilibrium outcomes in Monopolistic competition and Perfect Competition are similar, because in both market structures —

(a) The efficient output level will be produced in the long run
(b) Firms will be producing at minimum average cost
(c) Firms will only earn a normal profit
(d) Firms realize all economies of scale

Oligopoly

Q 235. Under Oligopoly, there are Sellers.

(a) Many (b) Only one
(c) A Few (d) No

Q 236. __________ is a situation is which a firm bases its market policy on part of the expected behavior of a few close rivals-

(a) monopoly (b) oligopoly
(c) perfect competition (d) monopolish

Q 237. Which one of the following is the best example of agreement between Oligopolists?

(a) GATT (b) OPEC
(c) WTO (d) UNIDO

Q 238. If Firms in the Toothpaste Industry have the following market shares, which market structure would best describe the industry?

Firm	Market Share%
White Shine Ltd	29.8
White Teeth Ltd	18.7
More White Teeth Ltd	14.3
Sure Health Ltd	11.6
Bright Teeth Ltd	9.4
Dental Care Ltd	8.8
Brighter than White Ltd	7.4
Total	**100.0**

(a) Perfect Competition
(b) Monopolistic Competition
(c) Oligopoly
(d) Monopoly

Q 239. One characteristic not typical of Oligopolistic Industry is
(a) Horizontal Demand Curve
(b) Too much importance to Non—Price Competition
(c) Price Stickiness
(d) A small number of Firms in the industry

Q 240. Under Oligopoly, each Firm's control over price is —
(a) Nil
(b) Full and Absolute
(c) Subject to Competing Firms' Strategies
(d) None of the above.

Q 241. Under Oligopoly, the Firm's Demand Curve is —
(a) Horizontal Line, parallel to X Axis
(b) Vertical Line, parallel to Y Axis
(c) Negatively Sloped
(d) Kinked.

Q 242. Oligopoly is the market from in which there are
(a) Many Sellers and many Buyers
(b) One Seller and many Buyers
(c) Few Sellers and many Buyers
(d) None of the above

Q 243. Which of the following most closely approximates the definition of an Oligopoly?
(a) Tobacco Industry
(b) Vehicle manufacturers in India
(c) Rice Producers
(d) Readymade Garments units in a city

Q 244. Pure Oligopoly is one where —
(a) There are many sellers producing homogeneous product
(b) There are many sellers producing differentiated product
(c) There are few sellers producing homogeneous product
(d) There are few sellers producing differentiated product

Q 245. 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

Q 246. In which of the following, a Kinked Demand Curve can be seen in a Firm?
(a) Monopolistic competition
(b) Monopoly
(c) Duopoly
(d) Oligopoly

Q 247. Which of these does not apply to Oligopoly?
(a) A Few Sellers
(b) Inter—dependence between Sellers
(c) Only one Buyer
(d) Group Behaviour between Sellers

Q 248. One characteristic not typical of Oligopolistic industry is
(a) Too much importance to Non—Price Competition
(b) Price Leadership
(c) Horizontal Demand Curve
(d) A small number of Firms in the industry

Q 249. Which of these applies to Oligopoly?
(a) A Few Sellers

(b) Group Behaviour between Sellers
(c) Non—Price Competition
(d) All the above

Q 250. Duopoly is a specific form where are —
(a) No Sellers at all
(b) Only one Seller
(c) Two Sellers
(d) Large Number of Sellers

Q 251. The American Economist Sweezy developed the —
(a) Production Possibility Curve concept
(b) Diminishing Marginal Utility Theory
(c) Kinked Demand Curve Theory
(d) Price Discrimination Theory

Q 252. When an Oligopolistic Firm changes its price, its rival Firms —
(a) will retaliate or react and change their prices
(b) will not react at all
(c) will exit the market
(d) will appeal to the Government

Q 253. A Price War in an Oligopoly refers to —
(a) Successive and continued price cuts by the Firms to increase sales and revenues
(b) Free gift offers by all Firms on a competitive basis
(c) Flooding the market with its goods by one Firm leading to price reduction by others
(d) Increase in the price by one Firm and other Firms following in a reverse way by decreasing their prices

Q 254. Firm under ________ cannot have sure and definite Demand Curve.
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Oligopoly.

Q 255. Under Oligopoly, if one Firm reduces its prices, the other Firms will generally —
(a) reduce their prices
(b) increase their prices
(c) not react at all
(d) exit the market.

Q 256. As per Kinked Demand Curve Theory of Oligopoly, the Kink is formed at —
(a) Prevailing Price
(b) Higher than Prevailing Price
(c) Lower than Prevailing Price
(d) Origin

Q 257. As per Kinked Demand Curve Theory of Oligopoly, the demand above the Kink is —
(a) more elastic
(b) less elastic
(c) unit elastic
(d) zero elastic

Q 258. As per Kinked Demand Curve Theory of Oligopoly, the demand below the Kink is —
(a) more elastic
(b) less elastic
(c) unit elastic
(d) zero elastic

Q 259. The upper part of kinked demand curve is —
(a) Elastic
(b) Inelastic
(c) Perfectly Elastic
(d) Unitary Elastic

Q 260. What does the Kinked Demand Curve explain?
(a) Price Differentiation
(b) Other than Price Competition
(c) Rivalry reactions in an Oligopoly
(d) None of the above

Q 261. A Firm having a Kinked Demand Curve indicates that
(a) If the Firm increases the price, competitive Firms reduce the price
(b) If the Firm increases the price, competitive Firms also increase the price
(c) If the Firm reduces the price, competitive Firms do not reduce the price
(d) If the Firm increases the price, competitive Firm do not increase the price

Q 262. The Kinked Demand Hypothesis is designed to explain in the context of Oligopoly —
(a) Price and Output Determination
(b) Price Rigidity
(c) Price Leadership
(d) Collusion among Rivals

Q 263. The Kinked Demand Curve model assumes that price elasticity of demand —
(a) Is higher for a price increase than for a price decrease
(b) Is lower for a price increase than for a price increase
(c) Is perfectly elastic for a price increase perfectly inelastic for a price decrease
(d) Is perfectly inelastic for a price increase and perfectly elastic for a price increase

Q 264. The demand curve of an oligopolist is
(a) Determinate (b) Indeterminate
(c) Circular (d) Vertical

Q 264. Kinky demand curve model explains the market situation known as
(a) Pure Oligopoly
(b) Collusive oligopoly
(c) Differentiated Oligopoly
(d) Price rigidity

Q 266. The Kinked Demand Curve model of Oligopoly assumes that —
(a) Response to a price increase is less than the response to a price decrease
(b) Response to a price increase is more than the response to a price decrease
(c) Elasticity of demand is constant regardless of whether price increases or decreases
(d) Elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases.

Q 267. In Oligopoly, why it difficult to determine the equilibrium price and output?
(a) All the Firms take their independent decisions
(b) Firms are interdependent making it difficult to specify the particular reaction of the rivals
(c) Very few Firms exist in the market
(d) A large number of Firms exist in the market

Q 268. If the Demand Curve confronting an individual Firm is perfectly elastic then
(a) The Firm is a Price Taker
(b) The Firm cannot influence the Price
(c) The Firm's Marginal Revenue Curve coincides with Average Revenue Curve
(d) All of the above

Q 269. Kinked demand curve of the Oligopoly indicates
I. If one firm decreases price other firms also decreases the price
II. If one firm increases price other firms also increases the price
III. If one firm decreases the price other firms does not decrease the price.
IV. If one firm increases the price other firms does not increase the price.
(a) Only I
(b) II and IV
(c) I and IV
(d) II and III

Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n	Q. n	A.n
1	C	52	A	103	D	154	D	205	C	256	A
2	D	53	D	104	D	155	A	206	C	257	A
3	C	54	D	105	C	156	B	207	A	258	B
4	D	55	B	106	C	157	C	208	C	259	A
5	B	56	B	107	D	158	C	209	C	260	C
6	C	57	B	108	A	159	A	210	C	261	D
7	D	58	C	109	B	160	A	211	D	262	B
8	B	59	B	110	D	161	D	212	D	263	B
9	C	60	B	111	D	162	C	213	D	264	B
10	A	61	B	112	A	163	C	214	B	265	D
11	A	62	A	113	A	164	D	215	C	266	A
12	B	63	D	114	C	165	B	216	A	267	B
13	D	64	A	115	C	166	B	217	B	268	D
14	D	65	A	116	A	167	B	218	C	269	C
15	A	66	A	117	B	168	B	219	C		
16	D	67	A	118	D	169	D	220	B		
17	C	68	A	119	B	170	D	221	C		
18	D	69	D	120	A	171	D	222	B		
19	C	70	B	121	C	172	A	223	D		
20	D	71	D	122	D	173	B	224	D		
21	D	72	D	123	A	174	C	225	B		
22	B	73	B	124	A	175	B	226	B		
23	B	74	A	125	C	176	D	227	A		
24	B	75	C	126	B	177	C	228	B		
25	C	76	C	127	C	178	B	229	C		
26	A	77	D	128	A	179	B	230	B		
27	B	78	D	129	C	180	B	231	B		
28	D	79	D	130	D	181	D	232	B		
29	D	80	B	131	A	182	A	233	A		
30	D	81	D	132	C	183	D	234	C		
31	A	82	B	133	C	184	D	235	C		
32	D	83	D	134	B	185	C	236	B		
33	A	84	C	135	A	186	D	237	B		
34	A	85	C	136	A	187	D	238	C		
35	D	86	D	137	A	188	A	239	A		
36	A	87	B	138	A	189	D	240	C		
37	B	88	B	139	A	190	C	241	D		
38	A	89	D	140	A	191	B	242	C		
39	C	90	A	141	D	192	C	243	B		
40	C	91	A	142	C	193	B	244	C		
41	C	92	A	143	B	194	A	245	A		
42	D	93	D	144	C	195	A	246	D		
43	A	94	A	145	A	196	A	247	C		
44	D	95	B	146	B	197	C	248	D		
45	C	96	A	147	D	198	D	249	D		
46	A	97	B	148	B	199	A	250	C		
47	D	98	D	149	C	200	A	251	C		
48	B	99	D	150	A	201	A	252	A		
49	A	100	A	151	A	202	A	253	A		
50	A	101	B	152	B	203	D	254	D		
51	A	102	C	153	B	204	C	255	A		

Chapter 4- Market & Its Forms

Q.1. 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

Q.2. Under which of the following forms of market structure does a firm has no control over the price of its product :

(a) Monopoly

(b) Oligopoly

(c) Monopolistic competition

(d) Perfect competition

Q.3. Given the relation MR = $MR = P\left(1-\frac{1}{e}\right)$ if e > 1then:

(a) MR>0 (b) MR <0

(c) MR=0 (d) None

Q.4. Profits of the firm will be more at :

(a) MR=MC

(b) Additional revenue from extra unit equals its additional cost

(c) Both of above

(d) None

Q.5. What should firm do when Marginal revenue is greater than marginal cost?

(a) Firm should expand output

(b) Effect should be made to make them equal

(c) Prices should be covered down

(d) All of these

Q.6. Under monopoly price discrimination depends upon

(a) Elasticity of demand for commodity

(b) Elasticity of supply for commodity

(c) Size of market

(d) All of above

Q.7. Firms in a monopolistic market are price ________.

(a) Takers (b) Givers

(c) Makers (d) Acceptors

Q.8. Market which have two firms are known as

(a) Oligopoly (b) Duopoly

(c) Monopsony (d) Oligopsony

Q.9. Monopolist can determine :

(a) Price (b) Output

(c) Either price or output (d) None

Q.10. MR of n th unit is given by :

(a) TR_n/TR_{n-1} , (b) TR_n+TR_{n-1}

(c) TR_n-TR_{n-1} (d) All of these

Q.11. The market structure in which the number of sellers is small and there is inter dependence in decision making by the firms is known as :

(a) Perfect competition (b)Oligopoly

(c)Monopoly (d) Monopolistic competition

Q.12. In perfect competition, since the firm is a price taker, the ________ curve is a straight line:

(a) Marginal cost (b) Total cost

(c) Total revenue (d) Marginal revenue

Q.13. Given the relation MR = $P\left(\frac{e-1}{e}\right)$, if e < 1, then:

(a) MR<0 (b) MR > 0

(c) MR = 0 (d) None of these.

Q.14. For a discriminating monopolist the condition for equilibrium is:

(a) MR >MC (b) MR, = MR,

(c) MR, = MR, = MC (d) All of the above.

Q.15. Average revenue curve is also known as:

(a) Profit curve (b) Demand curve

(c) Supply curve (d) Average cost curve.

Q.16. Given, AR = 5 and Elasticity of demand = 2 Find MR.

(a) + 2.5 (b)-2.5

(c) +1.5 (d) +2.0

Q.17. If a seller obtains ₹3,000 after selling 50 units and ₹3,100 after selling 52 units, then marginal revenue will be

(a) ₹59.62 (b) ₹50.00

(c) ₹60.00 (d) ₹59.80

Q.18. A firm will close down in the short period, if its AR is less than :

(a) AC (b) AVC

(c) MC (d) None of the above

Q.19. Which one of the following expressions is correct for Marginal Revenue?

(a) MR = AR $\left(\frac{1-e}{e}\right)$ (b) MR =TR_n- TR_{n+1}

(c) MR = $\frac{\Delta TR}{\Delta Q}$ (d) MR = $\frac{TR}{Q}$

Q.20. The market for ultimate consumer is known as:

(a) Wholesale market (b) Regulated market

(c) Unregulated market (d) Retail market

Q.21. For a firm to become profitable it should expand output whenever:

(a) Marginal revenue is equal to marginal cost

(b) Marginal revenue is less than marginal cost

(c) Marginal revenue is greater than marginal cost

(d) Average revenue is greater than average cost.

Q.22. On the basis of nature of transactions, a market may be classified into:

(a) Spot market and future market

(b) Regulated market and unregulated market

(c) Wholesale market and retail market

(d) Local market and national market.

Q.23. In very short period market:

(a) Supply changes but demand remains same

(b) Supply changes but price remains same

(c) Supply remains fixed

(d) Supply and demand both changes

Q.24. firm will close down in the short period, if its AR is less than:

(a) AC (b) AVC

(c) MC (d) None of the above.

Q.25. Which of the following is correct?

(a) MR = AR (e -1)/e (b) MR = AR (e +1)/e

(c)MR = AR (1- e)/e (d) None of the above

Q.26. According to Behavioural Principles.

(a) A firm should not produce at all if its total variable costs are not met.

(b) A firm will be making maximum profits by expanding output to the level where marginal revenue is equal to marginal cost.

(c) Both (a) and (b)

(d) None of these

Q.27. Market consists of

(a) Buyer and Seller

(b) One price for one product at a given time

(c)Both (a) and

(d) None

Q.28. Demand for a product is unitary elastic then

(a) MR=0 (b) MR > 0

(c) MR < 0 (d) None of the above

Q.29. Which of the following is true, when the firm is at equilibrium?

(a) MC < MR

(b) MC curve cuts the MR curve from below

(c) Both (a) and (b)

(d) None of the above

Q.30. When TR is at its peak then MR is equal to -

(a) Zero (b) Positive

(c) Negative (d) None of the above

Q.31. When price is ₹20, Quantity demanded is 10 units and price is decreased by 5% then quantity demand increased by 10% then Marginal revenue is ________.

(a) ₹10 (b) ₹11

(c) ₹9 (d) ₹20

Q.32. Which of the following represents the supply curve in a perfect competitive market?

(a) MC curve (b) AC curve

(c) AR curve (d) R curve

Q.33. When TR is man, then MR is

(a) Zero (b) One

(c) Both (a) & (b) (d) None

Q.34. __________ is also called a free market as there are no stipulations on the transactions

(a) Unregulated (b) Regulated

(c) Retail (d) Spot

Q.35. In this market, transactions involve contracts with a promise to pay and deliver goods at some future date

(a) Spot market (b) Future market

(c) Unregulated market (d) Retail market

Q.36. A firm reaches its shut down point

(a) When price is less than AVC in long run.

(b) When price is less than AVC in short run.

(c) When price is more than AC in long run.

(d) When price is more than AC in short run.

Q.37. Demand of good increases from 15 units to 16 units if price decreases from T 40 to ¥ 38. What will be MR of 16" units.

(a) 8 (b) 16

(c) 38 (d) 15

Q.38. For maximum profit, the condition is :

(a) AR = AC (b) MR = MC

(c) MR = AR (d) MC = AR

Q.39. Equilibrium price may be determined through:

(a) Only demand (b) Only supply

(c) Both demand & supply (d) None

Q.40. If price is forced to stay below equilibrium price then consequently it can be said that:

(a) Excess supply exists. (b)Excess demand exists

(c) Either (a) or (b) (d)Neither (a) nor (b)

Q.41. An increase in supply with unchanged demand leads to :

(a) Rise in price and fall in quantity

(b) Fall in both price and quantity

(c) Rise in both price and quantity

(d) Fall in price and rise in quantity

Q.42. In the long run:

(a) Only demand can change

(b) Only supply can change

(c) Both demand and supply can change

(d) None of these

Q.43. Condition for producer equilibrium is :

(a) TR=TVC (b) MC = MR

(c) TC=TAC (d) None of these

Q.44. An increase in supply with demand remaining the same, brings about.

(a) An increase in equilibrium quantity and decrease in equilibrium price.

(b) An increase in equilibrium price and decrease in equilibrium quantity

(c) Decrease in both equilibrium price and quantity.

(d) None of these.

Q.45. When the price of a commodity is ₹20, the quantity demanded is 9 units and when its price is ₹19, the Quantity demanded is 10 units. Based on this information what will be the marginal revenue resulting from an increase in output from 9 units to 10 units?

a) ₹20 (b) ₹19

(c) ₹10 (d) ₹01

Q.46. If the price of a commodity is fixed, then with every increase in its sold quantity the total revenue will _______ and the marginal revenue will ________

(a) Increase, also increase

(b) Increase, remain unchanged

(c) Increase, decline

(d) Remain fixed, increase.

Q.47. If supply decreases and demand remains constant, then equilibrium price will be?

(a) Increases (b) Decreases

(c) No change (d) Become Negative

Q.48. According to pigou, first degree price discrimination charges price to;

(a) Individual capacity (b) Quantities sold

(c) Location (d) None of the above

Q.49. What is the shape of monopolist Average Revenue Curve?

(a) Falls from left to right (b) Is parallel to X — axis

(c) Is parallel to Y — axis (d) Rise from left to right

Q.50. What is the shape of perfectly competitive Average Revenue Curve?

(a) Parallel to X axis (b) Parallel to Y axis

(c) Fall from left to right (d) Rise from left to right

Q.51. Monopsony means

(a) Where there are large firms

(b) There is a single buyer
(c) Small number of large buyers
(d) Single seller and single buyer

Q.52. When increase in demand is equal to increase in supply and equilibrium price remains constant, then what about equilibrium quantity?
(a) Increases (b) Decreases
(c) Remains Constant (d) None of the above

Q.53. An increase in supply with demand remaining the same, brings about
(a) An increase in equilibrium quantity and decrease in equilibrium price.
(b) An increase in equilibrium price and decrease in equilibrium quantity.
(c) Decrease in both equilibrium price and quantity.
(d) None of these

Q.54. A competitive firm in the short run incur losses. The firm continues production, if:
(a) P > AVC (b) P = AVC
(c) P < AVC (d) P >= AVC

Q.55. Under ________ market condition, firms make normal profits in the long run:
(a) Perfect competition (b) Monopoly
(c) Oligopoly (d) None

Q.56. A monopolist is able to maximize his profits when :
(a) His output is maximum
(b) He charges a high price
(c) His average cost is minimum
(d) His marginal cost is equal to marginal revenue

Q.57. Under which of the following market structure AR of the firm will be equal to MR?
(a) Monopoly
(b) Monopolistic Competition
(c) Oligopoly Perfect
(d) Competition

Q.58. Under Monopolistic competition the cross elasticity of demand for the product of a single firm would be:
(a) Infinite (b) Highly elastic
(c) Highly inelastic (d) Zero

Q.59. When AR = ₹10 and AC = ₹8 the firm makes ________.
(a) Normal profit (b) Net profit
(c) Gross profit (d) Supernormal profit

Q.60. What are the conditions for the long run equilibrium of the competitive firm?
(a) LMC=LAC=P (b) SMC = SAC = LMC
(c) P =MR (d) All of these

Q.61. Kinked demand curve hypothesis is given by:
(a) Alfred marshal (b) A.C Pigou
(c) Sweezy (d) Hicks & Allen

Q.62. Supernormal profits occur, when :
(a) Total revenue is equal to total cost
(b) Total revenue is equal to variable cost
(c) Average revenue is more than average cost
(d) Average revenue is equal to average cost

Q.63. If under perfect competition, the price line lies below the average cost curve, the firm would : Incur losses
(a) Make only Normal profits
(b) Incur losses
(c) Make abnormal profit
(d) Profit cannot be determined

Q.64. The MR curve cuts the horizontal line between Y axis and demand curve into:
(a) Two unequal parts
(b) Two equal parts
(c) May be equal or unequal parts
(d) None of these

Q.65. Kinked demand curve is observed in ________.
(a) Duopoly market (b) Monopoly market
(c) Competitive market (d) Oligopoly market.

Q.66. Competitive firms in the long run earn:
(a) Super normal profit (b) Normal profit
(c) Losses (d) None

Q.67. For a monopolist, the necessary condition for equilibrium is: =

(a) P = MC (b) P= MR = AR

(c) MR = MC (d) None

Q.68. A firm will shut down in the short run if :

(a) It is suffering a loss

(b) Fixed costs exceeds revenue

(c) Variable costs exceed revenues

(d) Total costs exceed revenues

Q.69. ________ is the price at which demand for a commodity is equal to its supply :

(a) Normal Price (b) Equilibrium Price

(c) Short run Price (d) Secular Price

Q.70. OPEC is an example of :

(a) Monopolistic competition

(b) Monopoly

(c) Oligopoly

(d) Duopoly

Q.71 ________ is an ideal Market.

(a) Monopoly (b) Monopolistic

(c) Perfect Competition (d) Oligopoly

Q.72. Under which Market Situation demand curve is linear and parallel to X axis :

(a) Perfect Competition (b) Monopoly

(c) Monopolistic Competition (d) Oligopoly

Q.73 Which market have characteristic of product differentiation?

(a) Perfect Competition (b) Monopoly

(c) Monopolistic Competition (d) Oligopoly

Q.74. Which of these are characteristics of Perfect Competition?

(a) Many Sellers & Buyers

(b) Homogeneous Product

(c) Free Entry and Exit

(d) All of the above

Q.75. The demand curve of oligopoly is :

(a) Horizontal (b) Vertical

(c) Kinked (d) Rising left to right

Q.76. MR Curve = AR = Demand Curve is a feature of which kind of Market?

(a) Perfect Competition (b) Monopoly

(c) Monopolistic (d) Oligopoly

Q.77. In the long-run monopolist can:

(a) Incur losses

(b) Must earn super normal profits

(c) Wants to shut-down

(d) Earns only normal profits.

Q.78. The demand curve of the firm and industry will be same in which form of market :

(a) Monopolistic Competition

(b) Perfect Competition

(c) Monopoly

(d) Oligopoly.

Q.79. Oligopoly having identical products is:

(a) Pure oligopoly (b) Imperfect oligopoly

(c) Price leadership (d) Collusion.

Q.80. The demand curve of oligopoly is :

(a) Horizontal (b) Vertical

(c) Kinked (d) Rising left to right

Q.81. Demand curve is equal to M. R. curve in which market?

(a) Oligopoly

(b) Monopoly

(c) Monopolistic Competition

(d) Perfect Competition

Q.82. Kinked demand hypothesis is designed to explain ________ in context of oligopoly.

(a) Price and output determination

(b) Price rigidity

(c) Collusion between firm

(d) All of the above

Q.83. Price discrimination can take place only in ________.

(a) Monopolistic competition

(b) Oligopoly

(c) Perfect competition

(d) Monopoly

Q.84. In oligopoly, the kink on the demand curve is more due to ________.

(a) Discontinuity in MR.
(b) Discontinuity in AR.
(c) Fulfilment of the assumption that a price cut is followed by others and a price increase by a firm is not followed by others.
(d) Price war amongst the firms.

Q.85. Price Discrimination is possible only when

(a) Seller is alone
(b) Goods are homogeneous
(c) Market is controlled by the government
(d) None of the above

Q.86. Which of the following is not the feature of an imperfect competition?

(a) Product differentiation (b) Few sellers
(c) Homogeneous products (d) Price wars

Q.87. Price taker firms _______.

(a) Do not advertise their product because it misleads the customers.
(b) Advertise their products to boost the level of demand.
(c) Do not advertise but give gifts along with the sold items to attract customers
(d) Do not advertise because they can sell as much as they wish at the prevailing price

Q.88. Price rigidity is a situation found in which of the following market forms?

(a) Perfect competition
(b) Monopoly
(c) Monopolistic competition
(d) Oligopoly.

Q.89. When elasticity of demand is Equal to one in monopoly, marginal Revenue will be _______.

(a) Equal to one (b) Greater than one
(c) Less than one (d) Zero

Q.90. Which one of the following statement is Incorrect?

(a) Competitive firms are price takers and not price makers.
(b) Price discrimination is possible in monopoly only.
(c) Duopoly may lead to monopoly.
(d) Competitive firm always seeks to discriminate prices.

Q.91. Under which of the following market structure AR of the firm will be equal to MR?

(a) Monopoly (b) Monopolistic Competition
(c) Oligopoly (d) Perfect Competition

Q.92. Tooth paste industry is an example of _______.

(a) Monopoly (b) Monopolistic Competition
(c) Oligopoly (d) Perfect Competition

Q.93. OPEC is an example of :

(a) Monopolistic competition (b) Monopoly
(c) Oligopoly (d) Duopoly

Q.94. Monopolistic Competitive firms _______.

(a) Are small in size
(b) Have small share in total market
(c) Are very large in size
(d) both (a) and (b)

Q.95. The price discrimination under monopoly will be possible under which of the following conditions?

(a) The seller has no control over the supply of his product
(b) The market has the same condition all over
(c) The price elasticity of demand is different in different markets 1 mark
(d) The price elasticity of demand is uniform.

Q.96. Oligopoly having identical products is known as

(a) Pure oligopoly (b) Collusive oligopoly
(c) Independent oligopoly (d) None of these

Q.97. Which of these is the best example of oligopoly?

(a) OPEC (b) SAARC
(c) WTO (d) GATT

Q.98. Monopolist can fix him price of goods whose elasticity is

(a) Less than 1 (b) More than 1
(c) Elastic (d) Inelastic

Q.99. Kinked demand curve is observed in

(a) Duopoly market (b) Monopoly market
(c) Competitive market (d) Oligopoly market.

Q.100. Perfectly competitive firm faces:
(a) Perfectly elastic demand curve
(b) Perfectly inelastic demand curve
(c) Zero
(d) Negative

Q.101. In perfect Competition when the firm is a price taker, which curve among the following will be a straight line?
(a) Marginal Cost (b) Average Cost
(c) Total Cost (d) Marginal Revenue

Q.102. "Price Discrimination" can be best exercised by the Seller in ________.
(a) Oligopoly
(b) Monopoly
(c) Monopolistic competition
(d) perfect competition

Q.103. In Oligopoly the kink in the demand curve is more due to _________
(a) Discontinuity in MR
(b) Discontinuity in AR
(c) Fulfilment of the assumption that a price fall is followed by the other and a price increase by a firm is not followed by the other
(d) Price war among the firms

Q.104. A firm encounters "shut down" point when _________.
(a) Marginal cost equals the price of the profit maximising level of output
(b) Average fixed cost equals the price at the profit maximising level of output
(c) Average variable cost equals the price at the profit maximising level of output
(d) Average total cost equals the price at the profit maximising level of output

Q.105. Under which market Condition firms make only normal profits in the long run?
(a) Oligopoly
(d) Monopoly
(c) Monopolistic competition
(d) Duopoly

Q.106. In monopolistic competition excess capacity in the firm
(a) Always exists (b) Sometimes exists
(c) Never exists (d) None of the above

Q.107 Selling costs have to be incurred in case of:
(a) Perfect Competition
(b) Monopolistic Competition
(c) Monopoly
(d) None of these.

Q.108. In market, the price and output equilibrium is determined on the basis of:
(a) Total revenue and total cost
(b) Total cost and marginal cost
(c) Marginal revenue and marginal cost
(d) Only marginal cost.

Q.109. A perfect market is characterised by :
(a) Existence of large number of buyers and sellers
(b) Homogenous products
(c) Perfect knowledge of the market
(d) All of the above.

Q.110. Which of the following IS not a feature of oligopoly market?
(a) Interdependence of the firms In decision making
(b) Price rigidity
(c) Group behaviour
(d) Existence of large number of firms.

Q.111. A monopolist can fix:
(a) Both price and output
(b) Either price or output
(c) Neither price nor output
(d) None of the above.

Q.112. In a perfectly competitive market, the demand curve of a firm is:
(a) Elastic (b) Perfectly elastic
(c) Inelastic (d) Perfectly inelastic

Q.113. In a competitive market, if price exceeds Average Variable Cost (AVC) but remains less than Average Cost (AC) at the equilibrium, the firm is:
(a) Making a profit
(b) Planning to quit

(c) Experiencing loss but should continue production
(d) Experiencing loss but should discontinue production.

Q.114. Price under perfect competition is determined by the
(a) Firm (b) Industry
(c) Government (d) Society.

Q.115. Under monopoly, which of the following is correct:
(a) AR and MR both are downward sloping
(b) MR lies halfway between AR and Y axis
(c) MR can be zero or even negative
(d) All of the above.

Q.116. Non price competition is very popular in:
(a) Monopoly market
(b) Monopolistic competition
(c) Oligopolistic market
(d) Perfect competition.

Q.117. In the 'kinked demand' curve model, the upper portion of the demand curve is:
(a) Elastic (b) Inelastic
(c) Perfectly Elastic (d) Unitary Elastic.

Q.118. Equilibrium price for an industry in perfect competition is fixed through.
(a) Input and Output
(b) Market demand and market Supply
(c) Market demand and firms supply
(d) None of the above.

Q.119. In a perfectly competitive market, if MR is greater than MC, then a firm should
(a) Increase its production
(b) Decrease its production
(c) Decrease its sales
(d) Increase its sales

Q.120. Kinked demand curve is related to which market structure
(a) Oligopoly (b) Monopoly
(c) Monopsony (d) Monopolistic competition.

Q.121. In the long run a monopolist always earns
(a) Normal profit (b) Abnormal profit
(c) Zero profit (d) Loss

Q.122. Under which of the following forms of market structure does a firm has a very considerable control over the price of its product?
(a) Monopoly (b) Monopolistic Competition
(c) Oligopoly (d) Perfect Competition

Q.123. One of the essential conditions of Perfect Competition is :
(a) Product differentiation
(b) Many sellers and few buyers
(c) Only one price for identical goods at any one time
(d) Multiplicity of prices for identical product at any one time

Q.124. The demand curve of an oligopolist is :
(a) Determinate (b) Indeterminate
(c) Circular (d) Vertical

Q.125. Abnormal profits exist in the long run only under ______
(a) Perfect competition
(b) Monopoly
(c) Monopolistic competition
(d) Oligopoly

Q.126. The distinction between a single firm and an Industry vanishes in which of the following market conditions?
(a) Perfect Competition (b) Imperfect Competition
(c) Pure Competition (d) Monopoly

Q.127. Selling outlay is an essential part of which of the following market situations?
(a) Perfect Competition
(b) Monopoly
(c) Monopolistic Competition
(d) Pure Competition.

Q.128. The Kinked demand curve model explains the market situation
(a) Pure Oligopoly (b) Differentiated Oligopoly
(c) Collusive Oligopoly (d) Price Rigidity

Q.129. For price discrimination to be successful, the elasticity of demand for the commodity in the two markets should be :

(a) Same (b) Different

(c) Constant (d) Zero

Q.130. 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 one buyer or seller cannot affect the market

c. Each firm produces a homogeneous product

d. There is easy entry into or exit from the market place.

Q.131. A market structure in which many firms sell products that are similar and identical is known as ________.

(a) Monopolistic competition

(b) Monopoly

(c) Perfect competition

(d) Oligopoly

Q.132. A firm having kinked demand curve indicates that:

(i) If the firm reduces the price, competitive firms also reduce the price

(ii) If the firm' Increases the price, competitive firms also Increases the price

(iii) If the firm reduces the price, competitive firms do not reduce the price

(iv) If the firm increases the price, competitive firms do not increase the price

(a) Only (i) above

(b) Both (i) and (iv) above

(c) Both (ii) and (iv) above

(d) Both (ii) and (iii) above

Q.133. Price discrimination will not be profitable, if the elasticity of demand is ________ in different markets

(a) Uniform (b) Different

(c) Less (d) Zero

Q.134. In the long run, which of the following statement is true for a firm in a perfectly competitive industry?

(a) It operates at its minimum average cost

(b) The price is more than the average fixed cost

(c) The marginal cost is greatest than marginal revenue

(d) The fixed cost is lower than the total variable cost

Q.135. The firm will attain equilibrium at a point where MC curve cuts ________ from below.

(a) AR curve (b) MR curve

(c) AC curve (d) AVC curve.

Q.136. In a monopoly market, a producer has control only over:

(a) Price of the commodity

(b) Demand of the commodity

(c) Both (a) and (b)

(d) Utility of the product.

Q.137. One of the following is not correct about perfect competition:

(a) Purchase and Sale of homogeneous goods

(b) Existence of marketing costs

(c) Absence of transportation costs

(d) Perfect mobility of factors of production.

Q.138. Kinked demand curve under oligopoly is designed to show:

(a) Price and output determination

(b) Price rigidity

(c) Price leadership

(d) Collusion among rivals.

Q.139. "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.

(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 shut down.

Q.140. Kinked demand curve is the demand curve of

(a) Perfect Competition

(b) Monopoly

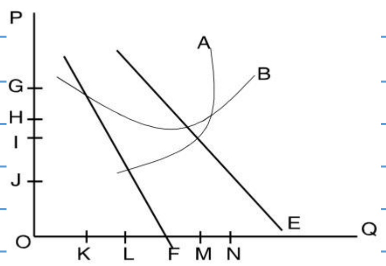
(c) Monopolistic Competition
(d) None of the above.

Q.141. Price discrimination M" be profitable only if the elasticity of demand in different markets is
(a) Uniform (b) Different
(c) Less (d) Zero

Q.142. Under which of the following form of market structure does a firm have no control over the price of its production?
(a) Monopoly (b) Monopolistic Competition
(c) Oligopoly (d) Perfect Competition.

Q.143. __________ is that situation in which a firm bases its market policy, in part on the expected behaviour of a few close rivals.
(a) Oligopoly (b) Monopolistic Competition
(c) Monopoly (d) Perfect Competition.

Solve the question No. 91, 92 and 93 on the base of following figure:



Q.144. In the above figure, curve E is the firm's
(a) Marginal Cost Curve (b) Average Cost Curve
(c) Demand Curve (d) Marginal revenue Curve.

Q.145. Above figure represents a
(a) Monopolist
(b) Perfectly competition industry
(c) Perfectly competitive firm
(d) None of the above.

Q.146. In above figure, firms marginal revenue curve is curve
(a) E (b) A
(c) F (d) B

Q.147. The price elasticity of demand for a product is infinite under:
(a) Perfect competition
(b) Monopolistic competition
(c) Monopoly
(d) Oligopoly.

Q.148. Comparing a Monopoly and Competitive firm the Monopolist will:
(a) Produce less and sell at a lower price
(b) Produce more and sell at a lower price
(c) Produce less and sell at a higher price
(d) Produce zero and sell at a lower price.

Q.149. The reason for the kinked demand curve is that:
(a) The oligopolist believe that competitors will follow output increases but not output reductions.
(b) The oligopolist believe that competitors will follow price increases but not output reductions.
(c) The oligopolist believe that competitors will follow price cuts but not price rises.
(d) The oligopolist believe that competitors will follow price increases but not output increases.

Q.150. A discriminating monopolist will charge a higher price in the market in which the demand for its product is .
(a) Highly elastic (b) Relatively elastic
(c) Relatively inelastic (d) Perfectly elastic.

Q.151. If a firm under monopoly wants to sell more, its average revenue curve will be a line.
(a) Horizontal (b) Vertical
(c) Downward sloping (d) Upward sloping

Q.152. Who sets the price of the product under perfect competition?
(a) Government (b) Consumers
(c) Sellers (d) Both buyers and sellers

Q.153. Which is the first order condition for the firm to maximise the profit.
(a) AC = MR (b) AC = AR
(c) MC = MR (d) MR = AR

Q.154. Which market has the concept of 'group' equilibrium in the long run?

(a) Oligopoly
(b) Monopoly
(c) Monopolistic competition
(d) Perfect competition.

Q.155. Which of the following is incorrect?
(a) Even monopolistic can earn losses.
(b) Firms in perfect competitive market is price taker.
(c) It is always beneficial for a firm in a perfectly competitive market to discriminative prices.
(d) Kinked demand curve is related to an oligopolistic market.

Q.156. Average revenue curve is also known as:
(a) Profit Curve (b) Demand Curve
(c) Average Cost Curve (d) Indifference Curve

Q.157. Which is not characteristic of monopoly?
(a) The firm is price taker
(b) There is a single firm
(c) The firm produces a unique product
(d) The existence of some advertising.

Q.158. Price discrimination is profitable only when:
(a) Different markets are kept separate
(b) Distance between the consumer and the market is more
(c) Elasticity of demand in different markets is different
(d) The consumers are segregated on the basis of their purpose of use of the commodity.

Q.159. When the industry is dominated by one large firm which is considered as the leader of the group, the market is described as:
(a) Open oligopoly (b) Perfect oligopoly
(c) Partial oligopoly (d) Organised oligopoly.

Q.160. Which amongst the following is not an objective of price discrimination?
(a) To hold the extra stocks
(b) To earn maximum profits
(c) To enjoy economies of scale
(d) To secure equity through pricing.

Q.161. Which of the following statement is not correct?
(a) Under monopoly there is no difference between a firm and 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.

Q.162. Under perfect competition firm is described as:
(a) Price taker and not price maker
(b) Price maker and not price taker
(c) Neither price maker nor price taker
(d) None of the above.

Q.163. 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.

Q.164. Condition for equilibrium of firm:
(a) MR = MC
(b) AR = AC
(c) MC curve cuts MR curve from below
(d) Both (a) and (c)

Q.165. What is/ are feature (s) of oligopoly
(a) Kinked Demand curve
(b) Cartel
(c) Downward sloping demand curve
(d) Both (a) and (b) are correct

Q.166. Monopoly is undesirable due to:
(a) It has prices higher than competitive firms
(b) It produces less output than competitive firms
(c) It discriminates on prices
(d) All of the above.

Q.167. In long run equilibrium undue perfect competition is/are satisfied by which condition
(a) MC = MR (b) AC = AR
(c) CMC = LAC = P (d) All of the above.

Q.168. In the long run monopolist
(a) Incur losses
(b) Must earn super normal profits

(c) Wants to shut down
(d) Earns only normal profits.

Q.169. The demand curve of the firm and industry will be same in which form of market:
(a) Monopolistic competition
(b) Perfect competition
(c) Monopoly
(d) Oligopoly

Q.170. Which of these is the best example of oligopoly?
(a) OPEC (b) SAARC
(c) WTO (d) GATT

Q.171. In a perfectly competitive market, if MR is greater than MC, then a firm should:
(a) Increase its production
(b) Decrease its production
(c) Decrease its sales
(d) Increase its sales

Q.172. Equilibrium price for an industry in prefect competition is fixed through
(a) Input and output
(b) Market demand and market supply
(c) Market demand and firms supply
(d) None of the above.

Q.173. A competitive firm in the short rum insure losses. The firm continues production, if:
(a) P > AVC (b) P = AVC
(c) P < AVC (d) P > AVG

Q.174. Market form in which there is only one buyer and one seller is:
(a) Oligopoly (b) Duopoly
(c) Bilateral Monopoly (d) Monopsony

Q.175. The structure of the Toothpaste Industry in India is best described as:
(a) Perfectly competitive
(b) Monopolistic
(c) Monopolistically competitive
(d) Oligopolistic

Q.176. Product differentiation is the main features of which market?
(a) Oligopoly
(b) Monopolistic
(c) Discriminating Monopoly
(d) Perfect competition

Q.177. Which market is having a single seller and single Buyer?
(a) Duopoly (b) Monopsony
(c) Bilateral Monopoly (d) None of the above

Q.178. In Long run perfect competitive market incurs
(a) Normal profit (b) Supernormal profit
(c) Losses (d) Constant Returns

Q.179. Which one of the following is not the feature of Oligopoly?
(a) Interdependency
(b) Selling cost
(c) Free Entry
(d) None of the above/ group behaviour

Q.180. Price leadership is the characteristic of
(a) Oligopoly
(b) Monopoly
(c) Perfect competition
(d) Discriminating Monopoly

Q.181. MR Curve in perfect competition is
(a) Parallel to X axis (b) Parallel to Y axis
(c) Fall from left to right (d) Rise from left to right

Q.182. Which of the following is not the characteristic of MR?
(a) When TR is maximum, then MR is zero
(b) MR cannot be negative
(c) MR slopes downward from left to right
(d) MR Curve is below AR Curve

Q.183. Which out of these are not features of perfect competition?
(a) Homogeneous
(b) Large number of buyer and sellers
(c) Free entry and exit
(d) Selling cost.

Q.184. Which of the following statement is correct?
(a) Price rigidity is an important feature of monopoly

(b) Selling cost is possible under perfect competition
(c) An industry consists of many firms
(d) Under perfect competition factor of production do not move freely as these are legal restriction

Q.185. Which is the characteristic feature of monopoly?
(a) Homogeneous goods
(b) Strong barriers to entry
(c) Perfect competition
(d) Perfectly elastic demand curve

Q.186. A discriminating monopolist to reach equilibrium position, his decision on total output depends upon
(a) How much total output should be produce ?
(b) How the total output should be distributed between the two sub market ?
(c) Both (a) and (b)
(d) None

Q.187. Price discrimination is possible only in ______.
(a) Monopoly (b) Perfect Competition
(c) Oligopoly (d) Monopolistic Competition

Q.188. Kinked demand curve is
(a) Highly elastic at above the prevailing price
(b) Inelastic at below the prevailing price
(c) Both (a) and (b)
(d) None of the above

Q.189. Demand curve is horizontal in the case of ________.
(a) Monopoly
(b) Perfect Competition
(c) Imperfect Competition
(d) Monopolistic Competition

Q.190. What is the characteristic of monopolistic competition?
(a) Price elasticity is low for the product concerned (b) Large number of sellers
(c) No degree of control over price
(d) One buyer

Q.191. If a perfectly competitive firm earns super normal profits then ________
(a) AR > MR (b) AR < MR
(c) AR = MR (d) None of the above

Q.192. Live and let live is characteristics of which of the following market?
(a) Perfect Competition
(b) Monopoly Competition
(c) Imperfect Competition
(d) Oligopoly Competition

Q.193. In which of the following market there are only two sellers?
(a) Duopoly Competition
(b) Perfect Competition
(c) Monopoly Competition
(d) Perfect Competition and Duopoly

Q.194. The degree of elasticity in perfect competition market.
(a) Perfectly elastic (b) Inelastic
(c) Perfectly inelastic (d) Elastic

Q.195. A perfect competitive firm earns super normal profits when
(a) ATC < MC (b) ATC > MC
(c) MR < AR (d) MR > AR

Q.196. A firm is said to earn normal profit when
(a) AC = AR (b) MC = MR
(c) AR = NH (d) MC > MR

Q.197. Two firms are selling cold drinks and competing with some identical characteristics, This is an example of
(a) Duopoly (b) Monopoly
(c) Oligopoly (d) Monopolistic

Q.198. Group Behaviour is a characteristics of ________.
(a) Oligopoly (b) Monopoly
(c) Perfect Competition (d) Monopolistic Competition

Q.199. Myth in Real world
(a) Oligopoly (b) Duopoly
(c) Perfect Competition (d) Monopoly

Q.200. ________ oligopoly refers to that situation where the firms sell their products through a centralized body
(a) Syndicate oligopoly (b) Organized oligopoly
(c) Collusive oligopoly (d) Partial oligopoly

Q.201. *The similarity between monopolistic and perfect competition is ________.*

(a) In short run both earn super normal profit

(b) In long term both earn normal profit

(c) In short run their prices remain constant

(d) None

Q.202. *Which Market has a downward demand curve?*

(a) Monopolistic competition

(b) Monopoly

(c) Perfect competition

(d) Both (a) and (b)

QUESTION	ANS	QUESTION	ANS	QUESTION	ANS	QUESTION	ANS
1	D	52	A	103	C	154	C
2	D	53	A	104	C	155	C
3	A	54	D	105	C	156	B
4	C	55	A	106	A	157	A
5	A	56	D	107	B	158	C
6	A	57	D	108	C	159	C
7	C	58	B	109	D	160	A
8	B	59	D	110	D	161	C
9	C	60	D	111	A	162	A
10	C	61	C	112	B	163	D
11	B	62	C	113	C	164	D
12	D	63	B	114	B	165	D
13	A	64	B	115	D	166	D
14	C	65	D	116	B	167	D
15	B	66	B	117	A	168	B
16	A	67	C	118	B	169	C
17	B	68	C	119	A	170	A
18	B	69	B	120	A	171	A
19	C	70	C	121	B	172	B
20	D	71	C	122	A	173	A
21	C	72	A	123	C	174	C
22	A	73	C	124	B	175	B
23	C	74	D	125	B	176	B
24	B	75	C	126	D	177	C
25	A	76	A	127	C	178	A
26	C	77	B	128	D	179	C
27	C	78	C	129	B	180	A
28	A	79	A	130	B	181	A
29	B	80	C	131	C	182	B
30	A	81	D	132	B	183	D
31	C	82	B	133	A	184	C
32	A	83	D	134	A	185	B
33	A	84	C	135	B	186	C
34	A	85	A	136	A	187	A
35	B	86	C	137	B	188	C
36	B	87	D	138	B	189	B
37	A	88	D	139	A	190	B
38	B	89	D	140	D	191	C
39	C	90	D	141	B	192	D
40	A	91	D	142	D	193	A
41	D	92	B	143	A	194	A
42	C	93	C	144	C	195	A
43	B	94	D	145	A	196	A
44	A	95	C	146	C	197	A
45	C	96	A	147	A	198	A
46	B	97	A	148	C	199	C
47	A	98	A	149	C	200	A
48	A	99	D	150	C	201	B
49	A	100	A	151	C	202	D
50	A	101	D	152	D		
51	B	102	B	153	C		

Chapter – 5 Business Cycle

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

Q 2. When does an economic expansion occur in the business cycle?
(a) At the peak of the business cycle
(b) At the trough of the business cycle
(c) Between the peak and trough
(d) Between the trough and peak

Q 3. Increasing Prosperity and High standards of living are the characteristics of
(a) Peak (b) Contraction
(c) Expansion (d) Trough

Q 4. The end of expansion is termed as —
(a) Peak (b) Contraction
(c) Trough (d) None of the above

Q 5. The beginning of recession is
(a) Peak (b) Trough
(c) Contraction (d) Expansion

Q 6. A significant decline in general economic activity extending over a period of time is
(a) business cycle (b) contraction phase
(c) Trough (d) recovery

Q 7. Severe form of recession is
(a) Contraction (b) Depression
(c) Expansion (d) Peak

Q 8. The trough of a business cycle occurs when ________ hits its lowest point.
(a) inflation in the economy
(b) the money supply
(c) aggregate economic activity
(d) the unemployment rate

Q 9. The lowest point in the business cycle is referred to as the
(a) Expansion. (b) Boom.
(c) Peak. (d) Trough.

Q 10. Even with lower rate of interest, demand for credit declines in
(a) Expansion Phase (b) Peak
(c) Contraction Phase (d) Depression

Q 11. Which of the following statements is true?
(a) An Economy grows endlessly
(b) An Economy Contracts endlessly
(c) It is easy to predict turning points of Business Cycle
(d) None of the above

Q 12. Which of the following statement is not correct?
(a) Business Cycles are periodical
(b) Business Cycles are regular
(c) Business Cycles vary in intensity
(d) Business Cycles vary in length

Q 13. A leading indicator is
(a) a variable that tends to move along with the level of economic activity
(b) a variable that tends to move in advance of aggregate economic activity
(c) a variable that tends to move consequent on the level of aggregate economic activity
(d) None of the above

Q 14. A variable that tends to move later than aggregate economic activity is called
(a) a leading variable (b) a coincident variable.
(c) a lagging variable. (d) a cyclical variable.

Q 15. Changes in housing interest rate is a
(a) a leading indicator (b) a coincident indicator
(c) a lagging indicator (d) a cyclical indicator

Q 16. Unemployment is a
(a) a leading indicator (b) a coincident indicator
(c) a lagging indicator (d) a cyclical indicator

Q 17. GDP is a

(a) a leading indicator (b) a coincident indicator
(c) a lagging indicator (d) a cyclical indicator

Q 18. Industries that are extremely sensitive to the business cycle are the

(a) Durable goods and service sectors.
(b) Non-durable goods and service sectors.
(c) Capital goods and non-durable goods sectors.
(d) Capital goods and durable goods sectors.

Q 19. A decrease in government spending would cause

(a) the aggregate demand curve to shift to the right.
(b) the aggregate demand curve to shift to the left.
(c) a movement down and to the right along the aggregate demand curve.
(d) a movement up and to the left along the aggregate demand curve.

Q 20. 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.

Q 21. 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.

Q 22. During recession, the unemployment rate ________________ and output ________________

(a) Rises; falls (b) Rises; rises
(c) Falls; rises (d) Falls; falls

Q 23. The four phases of the business cycle are\

(a) Peak, recession, trough, and boom
(b) Peak, depression, trough, and boom
(c) Peak, recession, trough, and recovery
(d) Peak, depression, bust, and boom

Q 24. Leading economic indicators

(a) are used to forecast probable shifts in economic policies
(b) are generally used to forecast economic fluctuations
(c) are indicators of stock prices existing in an economy
(d) are indicators of probable recession and depression

Q 25. When aggregate economic activity is declining, the economy is said to be in

(a) Contraction. (b) an expansion.
(c) a trough. (d) a turning point.

Q 26. Peaks and troughs of the business cycle are known collectively as

(a) Volatility.
(b) Turning points.
(c) Equilibrium points.
(d) Real business cycle events.

Q 27. 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

Q 28. Which of the following is not a characteristic of business cycles

(a) Business cycles have serious consequences on the well-being of the society.
(b) Business cycles occur periodically, although they do not exhibit the same regularity.

(c) Business cycles have uniform characteristics and causes.

(d) Business cycles are contagious and unpredictable.

Q 29. Economic recession shares all of these characteristics except.

(a) Fall in the levels of investment, employment

(b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services

(c) Investor confidence is adversely affected and new investments may not be forthcoming

(d) Increase in the price of inputs due to increased demand for inputs

Q 30. The different phases of a business cycle

(a) Do not have the same length and severity

(b) expansion phase always last more than ten years

(c) last many years and are difficult to get over in short periods

(d) None of the above

Q 31. Which of the following is not an example of coincident indicator?

(a) Industrial production

(b) inflation

(c) Retail sales

(d) New orders for plant and equipment

Q 32. According to __________ trade cycle occurs due to onset of innovations.

a) Hawtrey (b) Adam Smith

(c) J M Keynes (d) Schum peter

Q 33. According to Keynes, Fluctuations activity are due to fluctuations in.

a) aggregate effective demand

b) Price

c) Supply of resources

d) None of the above

Sr. No	Ans	Sr. No	Ans
1	B	19	D
2	D	20	D
3	C	21	A
4	A	22	A
5	A	23	C
6	B	24	B
7	B	25	A
8	C	26	B
9	D	27	C
10	C	28	C
11	D	29	D
12	B	30	A
13	B	31	D
14	C	32	D
15	A	33	A
16	C		
17	B		
18	D		

Chapter 5- Business Cycle

Q.1. Rampant unemployment is found in:

(a) Boom (b) Recovery
(c) Contraction (d) Depression

Q.2. According to which economist trade cycle is a purely monetary for phenomenon

(a) Schumpter (b) Pigou
(c) Hawtrey (d) Marshall

Q.3. Greatest depression suffered by economy in which year.

(a) 1924 (b) 1930
(c) 2008 (d) 2009

Q.4. Last stage of recession is called:

(a) Depression (b) Recovery
(c) Slowdown (d) All of these.

Q.5. In the long run, a reduction in labour supply would cause output to ______ and the aggregate price level to_____.

(a) fall, rise (b) fall, fall
(c) rise, tall (d) rise, rise.

Q.6. Which of the following macro-economic variables would you include in an index of leading economic indicators?

(a) Employment (b) Inflation
(c) Real interest rates (d) Residential investment

Q.7. Industries that are extremely sensitive to the business cycle are the

(a) Durable goods and service sectors
(b) Non-durable goods and service sectors
(c) Capital goods and non-durable goods sectors
(d) Capital goods and durable goods sectors

Q.8. An economic variable that moves in the opposite direction as aggregate economic activity down in expansions, up in contractions is called.

(a) Pro cyclical (b) Counter cyclical
(c) A cyclical (d) A leading variable

Q.9. How many phases are there in business cycle?

(a) Four (b) Five
(c) One (d) Many

Q.10. The world economy suffered the longest, deepest and most widespread depression of the 20"1 century during?

(a) 1934 (b) 1928
(c) 1930 (d) 1932

Q.11. Business cycle is contagious and ________ in character?

(a) Local (b) Regional
(c) National (d) International

Q.12. Which External Factor affects the business cycle?

(a) Population growth
(b) Variation in government spending
(c) Money supply
(d) Macro economic policies

Q.13. Which internal factor affects the Business cycle?

(a) Fluctuations in investment
(b) Natural factors
(c) Technology shocks
(d) Population growth

Q.14. Whose statement out of these is false?

(a) Hawtrey "Trade cycle is purely Monetary phenomena"
(b) Keynes "Fluctuations in aggregate Demand"
(c) Pigou "Fluctuations in investment"
(d) Schumpeter-"Innovations"

Q.15. When once peak is reached, increase in demand is halted, then ________ phase begins?

(a) Trough (b) Contraction
(c) Expansion (d) Trend

Q.16. Fashion Retailer is business of?

(a) Cyclical business (b) Sun rise business
(c) Sluggish business (d) None of these

Q.17. Features of business cycles include?

(a) Discuss periodically
(b) Have four different phases

(c) Originate in free Market Economy
(d) All of the above.

Q.18. Which of the following is true about leading indicators?
(a) Measurable economic factors
(b) Changes after real output
(c) Both (a) and (b)
(d) None

Q.19. The internal causes of business cycle is
(a) Fluctuation in effective demand
(b) Technology shocks
(c) Both (a) and (b)
(d) None

Q.20. Economics activities will be declining in the phase of ________.
(a) Expansion (b) Depression
(c) Contraction (d) Peak

Q.21. Business Cycle occurs
(a) Periodically (b) In different phases
(c) Both (a) and (b) (d) None of the above

Q.22. According to some economists, ___________ are the prime causes of business cycles.
(a) Fluctuations in effective demand
(b) Fluctuations in investments
(c) Macroeconomic policies
(d) All of the above

Q.23. Which is not related to great depression of 1930?
(a) It started in USA
(b) John Maynard Keynes regarded lower aggregate expenditure as the cause
(c) Excess Money Supply
(d) Both (a) and (b)

Q.24. Which of the following is not the phase of business cycles?
(a) Prosperity (b) Upswing
(c) Reconstruction (d) Depression

Q.25. Boom and depression in business cycle are
(a) Turning points (b) Equilibrium points
(c) Both (a) and (b) (d) None of the above

Q.26. Which is not the characteristic feature of expansion phase in business cycle ?
(a) Increase in national output
(b) Unemployment
(c) Rise in price and costs
(d) Boost in business confidence

Q.27. "Modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism, according to ________.
(a) Pigou (b) Keynes
(c) Hawtrey (d) Schumpeter

Q.28. Find the odd man out: Which of these is not a coincident factor?
(a) Retail sale
(b) Industrial production
(c) Inflation
(d) New orders for plant & machine

Q.29. Excess capacity in capital industries leads to
(a) Peak (b) Trough
(c) Expansion (d) Recovery

Q.30. Here, growth moves in reverse direction
(a) Peak (b) Expansion
(c) Contraction (d) Recovery

Q.31. Frictional unemployment exists in
(a) Peak (b) Contraction
(c) Expansion (d) Recovery

Q.32. In which stage maximum production occurs.
(a) Peak (b) Expansion
(c) Boom or Expansion (d) Tough or boom

Q.33. Unemployment is caused due to structural changes is known as?
(a) Ethnic unemployment
(b) Involuntary unemployment
(c) Structural
(d) None

Q.34. At trough production is?

(a) High (b) Low

(c) Negative (d) None

Q.35. Stage at which actual demand is stagnated?

(a) Peak (b) Boom or Peak

(c) Contraction (d) Tough

Q.36. A change of reaction producer cancels their order in which, stage?

(a) Peak (b) Contraction

(c) Trough (d) None

Q.37. Which of the following is true?

(a) Depression is secure form trough

(b) Depreciation causes fall in interest rate.

(c) Both (a) and (b)

(d) None

Q.38. China's recent slovedow caused

(a) Cycle of decline and panic across the world.

(b) Countries across the globe were able to insulate themselves from the crisis.

(c) Stock Markets in the emerging economics largely remained unaffected

(d) Old technology fuelled the economic decline.

Q.39. What of the following are not external causes?

(a) Past war reconstruction

(b) Population growth

(c) Technology factors

(d) Fluctuation in effective demand

Q.40. The four phases of the business cycles are:

(a) Peak, recession, trough and depression

(b) Peak, recession, trough and boom

(c) Peak, depression, trough and boom

(d) Peak, depression, burst and boom

Q.41. Great Depression occurred during:

(a) 1930 (b) 1947

(c) 1857 (d) 2000

Q.42. Internal causes of depression include:

(a) Fluctuation in investments

(b) Money supply

(c) Psychological factors

(d) All of these

Q.43. External factors for depression does not include:

(a) Population growth

(b) Technology shocks

(c) Macro economic policies

(d) Post war reconstruction

Q.44. ________ is the measurable economic factorthat changes before economy starts to follow a particular pattern or trend:

(a) Leading indicator

(b) Lagging indicator

(c) Concurrent indication

(d) Coincident indicators

Q.45. The Rhythmic fluctuations in aggregate economic activity over a period of time are called:

(a) Business cycles (b) Trade cycles

(c) Both (a) and (b) (d) None of these

Q.46. According to ___________, modern business activities are based on the anticipation of business communities and are affected by waves of optimism and pessimism:

(a) Pigou (b) Hawtrey

(c) Keynes (d) Schumpeter

Q.47. According to ___________ trade cycles occurs as a result of innovation which takes place in the system from time to time:

(a) Pigou (b) Hawtrey

(c) Keynes (d) Schumpeter

Q.48. Variables that change after real output changes are:

(a) Leading indicators (b) Lagging indicators

(c) Coincident indicators (d) None of these

Q.49. Severe form of recession is called:

(a) Boom (b) Depression

(c) Trough (d) Recovery

Q.50. Industries which are extremely sensitive to business cycles includes:
(a) Non-durable goods
(b) Service Sector
(c) Capital goods and durable goods
(d) None of these

Q.51. Peaks and troughs of the business cycles are known collectively as:
(a) Turning points (b) Indicators
(c) Equilibrium points (d) Contraction

Q.52. During recession output:
(a) Falls (b) Rises
(c) Expands (d) None of these.

Q.53. Business cycles generally originate in:
(a) Free market economies
(b) Imperfect economies
(c) Developed nations
(d) Low growth economies

Q.54. At the time of Great Depression of 1930, GDP fell around:
(a) 14% (b) 15%
(c) 20% (d) 25%

Q.55. The highest point of business cycle is known as:
(a) Trough (b) Peak
(c) Trend (d) Boom

Q.56. During the slowdown of economy,
(a) GDP is increasing at fast rate
(b) GDP is increasing at slow rate
(c) GDP is decreasing at fast rate
(d) All of these

Q.57. The economic boom is characterised as period when:
(a) Rising employment
(b) High demand of imported goods
(c) Increase in investments
(d) All of these

Q.58. Which macro-economic variables are excluded from leading economic indicators:
(a) Industrial production
(b) Residential investment
(c) Money supply
(d) Inventory investment

Q.59. When aggregate economic activity is declining, is the phase of:
(a) Expansion (b) Contraction
(c) Recovery (d) Trough

Sr. No	Ans	Sr. no	Ans	Sr. No	Ans
1	D	28	D	55	B
2	C	29	B	56	B
3	B	30	A	57	D
4	A	31	C	58	A
5	A	32	A	59	B
6	D	33	C		
7	D	34	B		
8	B	35	A		
9	A	36	B		
10	C	37	C		
11	D	38	A		
12	A	39	D		
13	A	40	B		
14	C	41	A		
15	B	42	D		
16	A	43	C		
17	D	44	A		
18	A	45	C		
19	A	46	A		
20	C	47	D		
21	C	48	B		
22	B	49	B		
23	C	50	C		
24	C	51	A		
25	A	52	A		
26	B	53	A		
27	A	54	B		

CHAPTER 6 DETERMINATION OF NATIONAL INCOME

UNIT – 1 NATIONAL INCOME

1. Which of the following is NOT a component of Gross Domestic Product (GDP)?

(a) Consumption

(b) Investment

(c) Government Spending

(d) Imports

---

2. Which of the following is the correct formula for calculating Gross Domestic Product (GDP)?

(a) GDP = Consumption + Investment + Government Spending

(b) GDP = Consumption + Investment + Government Spending + Exports - Imports

(c) GDP = Consumption + Investment + Net Exports

(d) GDP = Consumption + Investment + Government Spending + Exports

---

3. Which of the following is a measure of a country's Gross National Product (GNP)?

(a) The total value of all goods and services produced within a country's borders in a specific period.

(b) The total value of all goods and services produced by a country's residents, both domestically and abroad, in a specific period.

(c) The total value of all goods and services sold by a country to other countries in a specific period.

(d) The total value of all goods and services produced by a country's domestic companies in a specific period.

---

4. In national income accounting, "Net Domestic Product (NDP)" is defined as:

(a) The total value of all goods and services produced within a country's borders in a specific period.

(b) The total value of all final goods and services produced within a country's borders in a specific period.

(c) The total value of all goods and services produced within a country's borders minus depreciation in a specific period.

(d) The total value of all goods and services produced by a country's residents, both domestically and abroad, in a specific period.

---

5. Which of the following is NOT a component of Gross Domestic Product (GDP)?

(a) Government Spending

(b) Consumption

(c) Investment

(d) Imports

---

6. What does GNP stand for in national income accounting?

(a) Gross National Product

(b) Gross Net Profit

(c) Government National Payment

(d) General National Practice

---

7. Which of the following represents the formula for calculating GDP (Gross Domestic Product)?

(a) GDP = Consumption + Government Spending + Investment + Exports - Imports

(b) GDP = Consumption + Government Spending - Investment + Exports + Imports

(c) GDP = Consumption + Government Spending + Investment - Exports - Imports

(d) GDP = Consumption - Government Spending + Investment + Exports - Imports

---

8. In national income accounting, what does the term "disposable income" refer to?
(a) The total income earned by a nation's residents.
(b) The income that individuals have after paying taxes.
(c) The total income earned by a nation's residents minus government spending.
(d) The income earned from foreign sources.

9. Which of the following is NOT included in the calculation of Gross Domestic Product (GDP)?

(a) Government spending

(b) Consumer spending

(c) Imports

(d) Exports

10. Which of the following is used to measure the total income earned by a country's residents, regardless of their location?

(a) Gross National Product (GNP)

(b) Gross Domestic Product (GDP)

(c) Net National Product (NNP)

(d) Net Domestic Product (NDP)

11. In National Income Accounting, depreciation of capital refers to:

(a) The decrease in the value of a nation's currency

(b) The decrease in the value of physical assets over time

(c) The decrease in the government's budget deficit

(d) The decrease in consumer spending on durable goods

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

(a) Salary of a government employee

(b) Social Security benefits

(c) Income earned from selling goods

(d) Corporate taxes paid to the government

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

(a) Consumption (C)

(b) Investment (I)

(c) Government Spending (G)

(d) Net Exports (NX)

14. National Income estimates are essential for:

(a) Calculating government debt

(b) Evaluating the overall health of the financial sector

(c) Measuring the economic growth and development of a country

(d) Determining the inflation rate

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

(a) Measure the overall size of the economy

(b) Determine the average income of a country's citizens

(c) Calculate the total value of exports and imports

(d) Analyze the distribution of wealth in a nation

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

(a) Facilitating economic planning and formulation of policies

(b) Assessing the contribution of different sectors to the economy

(c) Aiding in international trade negotiations

(d) Estimating the unemployment rate

17. National Income estimates help in identifying:

(a) The fiscal deficit of a country

(b) The sources of economic growth

(c) The exchange rates of foreign currencies

(d) The demographic profile of the population

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

(a) Imports and exports

(b) Government spending

(c) Foreign aid received

(d) Remittances from citizens working abroad

19. Which of the following is a usefulness of National Income estimates in economic planning?

(a) Estimating the number of people in poverty

(b) Determining the cost of living for citizens

(c) Assessing the impact of monetary policy

(d) Identifying the distribution of wealth in society

---

20. Which of the following is NOT a significance of National Income estimates?

(a) Comparing the economic performance of different countries

(b)Guiding businesses in profit maximization strategies

(c) Formulating fiscal policies and taxation rates

(d) Predicting short-term fluctuations in the stock market

---

21. The concept of "per capita income" derived from National Income estimates is used to:

(a) Determine the total output of an economy

(b) Measure the average income of individuals in the country

(c) Assess the level of government debt

(d) Calculate the value of imports and exports

---

22. National Income estimates help in identifying:

(a) The number of foreign tourists visiting the country

(b) The contribution of different sectors to the economy

(c) The literacy rate and educational attainment of citizens

(d) The availability of natural resources within the country

23. National Income estimates are essential for:

(a) Calculating individual income taxes

(b) Assessing the overall health of an economy

(c) Measuring inflation and unemployment rates

(d) Determining exchange rates between currencies

---

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

(a) Calculating the total population of a country

(b) Measuring the total value of goods and services produced in a country

(c) Determining the exchange rate of the country's currency

(d) Evaluating the literacy rate of the country

---

25. The significance of National Income estimates lies in:

(a) Assessing the distribution of income among different income groups

(b) Determining the number of unemployed individuals in the country

(c) Estimating the total national debt of the country

(d) Analyzing the birth and death rates in the country

---

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

(a) Assessing the standard of living in a country

(b) Formulating economic policies

(c) Calculating the inflation rate

(d) Comparing the economic performance of different countries

---

27. National Income estimates help in international comparisons of countries' economies because they:

(a) Provide information about the military strength of the countries

(b) Show the total exports and imports of the countries

(c) Indicate the level of technological advancement in the countries

(d) Offer a common measure to compare economic performance

---

28. Which of the following statements is true regarding the usefulness of National Income estimates?

(a) It helps in predicting the stock market trends.

(b) It assists in identifying the environmental challenges faced by a country.

(c) It is only relevant for developed countries, not for developing countries.

(d) It aids in assessing the contribution of different sectors to the economy.

---

29. Gross Domestic Product (GDP) measures:

(a) The total value of goods and services produced within a country's borders, including net income from abroad.

(b) The total value of goods and services produced by a country's residents, regardless of their location.

(c) The total value of goods and services produced within a country's borders, excluding net income from abroad.

(d) The total value of goods and services consumed within a country's borders.

---

30. Gross National Product (GNP) is defined as:

(a) The total value of goods and services produced within a country's borders, excluding depreciation.

(b) The total value of goods and services produced by a country's residents, regardless of their location.

(c) The total value of goods and services produced within a country's borders, including indirect taxes.

(d) The total value of goods and services produced by a country's residents, excluding net income from abroad.

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

(a) Deducting depreciation from Gross Domestic Product (GDP).

(b) Adding depreciation to Gross National Product (GNP).

(c) Deducting indirect taxes from Gross Domestic Product (GDP).

(d) Adding indirect taxes to Gross National Product (GNP).

---

32. National Disposable Income (NDI) is defined as:

(a) The total income earned by a country's residents, including net income from abroad.

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

(c) The total income earned by a country's residents, including indirect taxes.

(d) The total income earned by a country's residents, excluding depreciation.

---

33. Personal Income (PI) is calculated as:

(a) National Disposable Income (NDI) minus corporate profits and social insurance contributions.

(b) National Income (NI) minus indirect taxes.

(c) Gross Domestic Product (GDP) minus depreciation.

(d) Gross National Product (GNP) minus net income from abroad.

---

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

(a) Income earned by a country's residents, regardless of their location

(b) Value of goods and services produced within a country's borders

(c) Income earned by foreign residents within the country

(d) Value of goods and services produced by a country's residents abroad

---

35. Gross National Product (GNP) is calculated as the total:

(a) Value of goods and services produced within a country's borders

(b) Income earned by a country's residents, regardless of their location

(c) Income earned by foreign residents within the country

(d) Value of goods and services produced by a country's residents abroad

---

36. Net National Product (NNP) is derived by deducting:

(a) Depreciation from GDP

(b) Depreciation from GNP

(c) Net indirect taxes from GDP

(d) Net indirect taxes from GNP

---

37. National Disposable Income (NDI) is calculated by:

(a) Adding depreciation to NNP

(b) Adding net indirect taxes to NNP

(c) Deducting direct taxes from NNP

(d) Deducting net indirect taxes from NNP

---

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

(a) Adding transfer payments and deducting undistributed corporate profits

(b) Adding corporate profits and deducting net interest and rent

(c) Deducting direct taxes and adding transfer payments

(d) Deducting retained earnings and adding social security contributions

---

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

(a) Gross National Product (GNP)

(b) Net Domestic Product (NDP)

(c) Gross Domestic Product (GDP) at market price

(d) Net National Product (NNP)

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

(a) Net Domestic Product (NDP)

(b) Net National Product (NNP)

(c) Gross National Product (GNP)

(d) Gross Domestic Product (GDP) at factor cost

---

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

(a) Gross Domestic Product (GDP) at factor cost

(b) Net Domestic Product (NDP)

(c) Gross National Product (GNP)

(d) Net National Product (NNP)

---

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

(a) Gross Domestic Product (GDP) at market price

(b) Net Domestic Product (NDP)

(c) Gross Domestic Product (GDP) at factor cost

(d) Gross Value Added (GVA)

---

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

(a) Net Domestic Product (NDP) at factor cost

(b) Gross Domestic Product (GDP) at factor cost

(c) Gross Domestic Product (GDP) at market price

(d) Net National Product (NNP)

---

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

Goods	Quantity Produced	Price per Unit

X	100 units	₹ 10
Y	150 units	₹ 15

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

(a)₹2,500

(b) ₹ 3,000

(c)₹3,500

(d) ₹ 4,000

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

(a)₹480billion

(b) ₹ 666.67 billion

(c)₹666.00 billion

(d) ₹ 960 billion

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

(a)90.0

(b) 100.0

(c)110.0

(d) 125.0

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

(a) 90.0

(b) 100.0

(c) 110.0

(d) 125.0

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

(a) Prices have increased by 20% compared to the base year.

(b) Prices have decreased by 20% compared to the base year.

(c) Prices have remained the same as the base year.

(d) Prices have doubled compared to the base year.

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

(a) Prices have increased by 10% compared to the base year.

(b) Prices have decreased by 10% compared to the base year.

(c) Prices have remained the same as the base year.

(d) Prices have decreased by 90% compared to the base year.

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

- Gross Domestic Product (GDP) = ₹ 900 billion

- Net factor income from abroad (NFIA) = - ₹ 50 billion (negative value indicates net outflow of income to foreign countries)

Calculate the GNP for the year 2021.

(a) ₹ 850 billion

(b) ₹ 950 billion

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

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

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

(a) ₹ 1,160 billion

(b) ₹ 1,240 billion

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

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

52. In a country, the Gross National Product (GNP) for the year 2023 is ₹ 2,500 billion, and Net factor income from abroad (NFIA) is ₹ 80 billion (positive value indicates net inflow of income from foreign countries). The GDP for the year 2023 is:

(a) ₹ 2,580 billion

(b) ₹ 2,420 billion

(c) ₹ 2,420 billion (adjusted for net factor income from abroad)

(d) ₹ 2,580 billion (adjusted for net factor income from abroad)

53. In a country, the Gross National Product (GNP) for the year 2022 is calculated as follows:

Gross Domestic Product (GDP) = ₹ 900 billion

Net factor income from abroad = ₹ 50 billion

What is the Gross National Product (GNP) for the year 2022?

(a) ₹ 850 billion

(b) ₹ 950 billion

(c) ₹ 950 billion

(d) ₹ 950 billion

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

(a)₹900billion

(b) ₹ 700 billion

(c)₹800billion

(d) ₹ 600 billion

55. In a country, the Gross National Product (GNP) at Market Prices for the year 2022 is ₹ 1,500 billion. During the same year, depreciation (Capital Consumption Allowance) amounts to ₹ 200 billion. Calculate the Net National Product at Market Prices (NNPMP) for the year 2022.

(a) ₹ 1,300 billion

(b) ₹ 1,700 billion

(c) ₹ 1,300 billion (adjusted for depreciation)

(d) ₹ 1,700 billion (adjusted for depreciation)

56. In a country, the Gross National Product (GNP) at Market Prices for the year 2023 is ₹ 2,000 billion. During the same year, depreciation (Capital Consumption Allowance) amounts to ₹ 250 billion. The Net National Product at Market Prices (NNPMP) for the year 2023 is-

(a) ₹ 2,250 billion

(b) ₹ 1,750 billion

(c) ₹ 2,250 billion (adjusted for depreciation)

(d) ₹ 1,750 billion (adjusted for depreciation)

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

(a) ₹ 850 billion

(b) ₹ 950 billion

(c) ₹ 950 billion (adjusted for indirect taxes)

(d) ₹ 850 billion (adjusted for subsidies)

58. In a country, the Gross Domestic Product at Market Prices (GDPMP) for the year 2022 is ₹ 1,200 billion, and indirect taxes (subsidies) on products are ₹ 100 billion. Calculate the Gross Domestic Product at Factor Cost (GDPFC) for the year 2022.

(a) ₹ 1,100 billion

(b) ₹ 1,300 billion

(c) ₹ 1,100 billion (adjusted for indirect taxes)

(d) ₹ 1,300 billion (adjusted for subsidies)

59. In a country, the Gross Domestic Product at Market Prices (GDPMP) for the

year 2023 is ₹ 2,500 billion, and indirect taxes (subsidies) on products are Rs.200 billion. Calculate the Gross Domestic Product at Factor Cost (GDPFC) for the year 2023.

(a) y 2,300 billion

(b) ₹ 2,700 billion

(c) ₹ 2,300 billion (adjusted for indirect taxes)

(d) ₹ 2,700 billion (adjusted for subsidies)

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

(a) y 700 billion

(b) y 900 billion

(c) y 700 billion (adjusted for depreciation)

(d) y 900 billion (adjusted for depreciation)

61. In a country, the Gross Domestic Product at Factor Cost (GDPFC) for the year 2022 is y 1,200 billion, and depreciation (consumption of fixed capital) is y 150 billion. Calculate the Net Domestic Product at Factor Cost (NDPFC) for the year 2022.

(a) ₹ 1,050 billion

(b) ₹ 1,350 billion

(c) ₹ 1,050 billion (adjusted for depreciation)

(d) ₹ 1,350 billion (adjusted for depreciation)

62. In a country, the Gross Domestic Product at Factor Cost (GDPFC) for the year 2023 is y 2,500 billion, and depreciation (consumption of fixed capital) is y 200 billion. Calculate the Net Domestic Product at Factor Cost (NDPFC) for the year 2023.

(a) ₹ 2,300 billion

(b) ₹ 2,700 billion

(c) ₹ 2,300 billion (adjusted for depreciation)

(d) ₹ 2,700 billion (adjusted for depreciation)

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

(a) ₹ 850 billion

(b) ₹ 950 billion

(c) ₹ 950 billion (adjusted for net indirect taxes)

(d) ₹ 850 billion (adjusted for subsidies)

64. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2022 is ₹ 1,200 billion, and net indirect taxes (subsidies) on products are ₹ 100 billion. Calculate the Net National Product at Factor Cost (NNPFC) or National Income for the year 2022.

(a) ₹ 1,100 billion

(b) ₹ 1,300 billion

(c) ₹ 1,100 billion (adjusted for net indirect taxes)

(d) ₹ 1,300 billion (adjusted for subsidies)

65. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2023 is ₹ 2,500 billion, and net indirect taxes (subsidies) on products are ₹ 200 billion. Calculate the Net National Product at Factor Cost (NNPFC) or National Income for the year 2023.

(a) ₹ 2,300 billion

(b) ₹ 2,700 billion

(c) ₹ 2,300 billion (adjusted for net indirect taxes)

(d) ₹ 2,700 billion (adjusted for subsidies)

66. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2021 is ₹ 800 billion, and the total population is 200 million. Calculate the Per Capita Income for the year 2021.

(a)₹4,000

(b) ₹ 4,500

(c)₹3,500

(d) ₹ 4,200

67. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2022 is ₹ 1,200 billion, and the total population is 250 million. Calculate the Per Capita Income for the year 2022

(a) ₹ 4,800

(b) ₹ 4,000

(c) ₹ 4,500

(d) ₹ 5,000

68. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2023 is ₹ 2,500 billion, and the total population is 300 million. Calculate the Per Capita Income for the year 2023

(a) ₹ 8,000

(b) ₹ 6,000

(c) ₹ 7,500

(d) ₹ 5,000

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

(a) ₹ 730 billion

(b) ₹ 830 billion

(c) ₹ 850 billion

(d) ₹ 900 billion

70. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2022 is ₹ 1,200 billion, depreciation (consumption of fixed capital) is ₹ 150 billion, net indirect taxes (subsidies) on products are ₹ 80 billion, and net current transfers from abroad are ₹ 30 billion. Calculate the Personal Income for the year 2022.

(a) ₹ 1,000 billion

(b) ₹ 1,100 billion

(c) ₹ 1,020 billion

(d) ₹ 1,130 billion

71 . In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2023 is ₹ 2,500 billion, depreciation (consumption of fixed capital) is ₹ 200 billion, net indirect taxes (subsidies) on products are ₹ 100 billion, and net current transfers from abroad are ₹ 40 billion. Calculate the Personal Income for the year 2023.

(a)₹2,240billion

(b) ₹ 2,440 billion

(c)₹2,380billion

(d) ₹ 2,540 billion

72. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2021 is ₹ 900 billion. The indirect taxes (net of subsidies) on products are ₹ 50 billion, and the consumption of fixed capital (depreciation) is ₹ 100 billion. Calculate the Personal Income for the year 2021, given that there are no other income transfer ₹

(a) ₹ 750 billion

(b) ₹ 800 billion

(c) ₹ 850 billion

(d) ₹ 900 billion

73. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2022 is ₹ 1,200 billion. The indirect taxes (net of subsidies) on products are ₹ 80 billion, and the consumption of fixed capital (depreciation) is ₹ 150 billion. Calculate the Personal Income for the year 2022, given that there are no other income transfer

(a) ₹ 960 billion

(b) ₹ 970 billion

(c) ₹ 980 billion

(d) ₹ 990 billion

74. In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2023 is 7 2,500 billion. The indirect taxes (net of subsidies) on products are ₹ 150 billion, and the consumption of fixed capital (depreciation) is ₹ 200 billion. Calculate the Personal Income for the year 2023, given that there are no other income transfer

(a) ₹ 2,150 billion
(b) ₹ 2,150 billion
(c) ₹ 2,150 billion
(d) ₹ 2,150 billion

75. In a country, the Personal Income (PI) for the year 2021 is ₹ 800 billion. The direct taxes are 7 100 billion, and the social security contributions are ₹ 50 billion. Calculate the Disposable Personal Income (Dl) for the year 2021, given that there are no other income transfe₹

(a)₹650billion

(b) ₹ 750 billion

(c)₹700billion

(d) ₹ 600 billion

76. In a country, the Personal Income (PI) for the year 2022 is ₹ 1,200 billion. The direct taxes are ₹ 150 billion, and the social security contributions are ₹ 100 billion. Calculate the Disposable Personal Income (Dl) for the year 2022, given that there are no other income transfer ₹

(a)₹950billion

(b) ₹ 1,050 billion

(c)₹1,000billion

(d) ₹ 900 billion

77. In a country, the Personal Income (PI) for the year 2023 is ₹ 2,500 billion. The direct taxes are ₹ 200 billion, and the social security contributions are ₹ 150 billion. Calculate the Disposable Personal Income (Dl) for the year 2023, given that there are no other income transfer ₹

(a)₹2,200billion

(b) ₹ 2,300 billion

(c)₹2,350billion

(d) ₹ 2,400 billion

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

(a) ₹ 750 billion

(b) ₹ 900 billion

(c) ₹ 750 billion (adjusted for personal taxes)

(d) ₹ 1,050 billion

79. In a country, the Personal Income (PI) for the year 2022 is ₹ 1,200 billion. Personal taxes for the year 2022 are ₹ 180 billion. Calculate the Disposable Personal Income (Dl) for the year 2022.

(a) ₹ 1,020 billion

(b) ₹ 1,200 billion

(c) ₹ 1,020 billion (adjusted for personal taxes)

(d) ₹ 1,380 billion

80. In a country, the Personal Income (PI) for the year 2023 is ₹ 2,500 billion. Personal taxes for the year 2023 are ₹ 300 billion. Calculate the Disposable Personal Income (Dl) for the year 2023.

(a) ₹ 2,200 billion

(b) ₹ 2,800 billion

(c) ₹ 2,200 billion (adjusted for personal taxes)

(d) ₹ 2,800 billion (adjusted for personal taxes)

81. In a country, the Personal Income (PI) for the year 2021 is ₹ 900 billion. Current transfers from the government and rest of the world to individuals for the year 2021 are ₹ 50 billion. Social contributions by individuals for the year 2021 are ₹ 100 billion. Calculate the Private Income for the year 2021.

(a) ₹ 750 billion

(b) ₹ 800 billion

(c) ₹ 850 billion

(d) ₹ 950 billion

82. In a country, the Personal Income (PI) for the year 2022 is ₹ 1,200 billion. Current transfers from the government and rest of the world to individuals for the year 2022 are ₹ 80 billion. Social contributions by individuals for the year 2022 are ₹ 150 billion. Calculate the Private Income for the year 2022.

(a) ₹ 970 billion

(b) ₹ 970 billion

(c) ₹ 970 billion

(d) ₹ 970 billion

83. In a country, the Personal Income (PI) for the year 2023 is ₹ 2,500 billion. Current transfers from the government and rest of the world to individuals for the year 2023 are ₹ 200 billion. Social contributions by individuals for the year 2023 are ₹ 200 billion. Calculate the Private Income for the year 2023.

(a)₹2,300billion

(b) ₹ 2,700 billion

(c)₹2,500billion

(d) ₹ 2,900 billion

84. In a country, the Personal Income (PI) for the year 2021 is ₹ 900 billion. Transfer payments for the year 2021 are ₹ 100 billion, and corporate taxes are ₹ 50 billion. Calculate the Private Income for the year 2021.

(a) ₹ 750 billion

(b) ₹ 750 billion (adjusted for transfer payments)

(c) ₹ 850 billion

(d) ₹ 950 billion

85. In a country, the Personal Income (PI) for the year 2022 is ₹ 1,200 billion. Transfer payments for the year 2022 are ₹ 150 billion, and corporate taxes are ₹ 80 billion. Calculate the Private Income for the year 2022.

(a) ₹ 970 billion

(b) ₹ 1,020 billion

(c) ₹ 970 billion (adjusted for transfer payments)

(d) ₹ 1,080 billion

86. In a country, the Personal Income (PI) for the year 2023 is ₹ 2,500 billion. Transfer payments for the year 2023 are ₹ 200 billion, and corporate taxes are ₹ 150 billion. Calculate the Private Income for the year 2023.

(a) ₹ 2,200 billion

(b) ₹ 2,150 billion

(c) ₹ 2,200 billion (adjusted for transfer payments)

(d) ₹ 2,350 billion

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

(a) Reserve Bank of India (RBI)

(b) Central Statistical Office (CSO)

(c)Ministry of Finance

(d) World Bank

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

(a) Expenditure approach

(b) Consumer Price Index method

(c) Profit and Loss method

(d) Balance of Payments approach

89. Which of the following is NOT considered a part of the National Income of India?

(a) Wages of factory workers

(b) Dividends received by shareholders from a domestic company

(c) Profits earned by a foreign company from its operations in India

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

90. Which base year is currently used for calculating the real Gross Domestic Product (GDP) in India?

(a) 2010-2011

(b) 2004-2005

(c) 2015-2016

(d) 2008-2009

91. Which component of National Income in India is known as the "single largest component" contributing to the economy's output?

(a) Agriculture

(b) Manufacturing

(c) Services

(d) Construction

92. Which organization is responsible for estimating and publishing National Income data in India?

(a) Reserve Bank of India (RBI)

(b) Ministry of Finance

(c) Central Statistical Office (CSO)

(d) Indian Statistical Institute (ISI)

93. Which method is used to estimate National Income in India?

(a)Expenditure approach

(b) Production approach

(c) income approach

(d) All of the above

94. The base year for computing the Gross Domestic Product (GDP) in India is generally revised after every:

(a) 5 years

(b) 8 years

(c) 10 years

(d) 15 years

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

(a) Deducting indirect taxes and adding subsidies

(b) Adding indirect taxes and deducting subsidies

(c) Adding net exports

(d) Deducting net exports

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

(a) Agriculture and allied activities

(b) Manufacturing

(c) Services

(d) Foreign Trade

97. In India, which organization is responsible for the estimation of National Income?

(a) Ministry of Finance

(b) Reserve Bank of India (RBI)

(c) Central Statistical Office (CSO)

(d) Planning Commission of India

98. Which factor-based method is used for calculating Gross Domestic Product (GDP) in India?

(a) Production Approach

(b) Expenditure Approach

(c) Income Approach

(d) Value Added Approach

99. Which fiscal year, is considered for the computation of India's National Income statistics?

(a) January 1st to December 31st

(b) April 1st to March 31st

(c) July 1st to June 30th

(d) October 1st to September 30th

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

(a) Agriculture and Allied Activities

(b) Manufacturing

(c) Services

(d) Mining and Quarrying

101. In the context of National Income accounting, what does GVA stand for?

(a) Gross Value Adjustment

(b) Gross Value Added

(c) Gross Variable Assessment

(d) General Value Adjustment

102. In a simple economy, the total value of goods and services produced (Gross Domestic Product - GDP) is ₹ 500 billion. The total income earned by households (wages, rent, and profits) is ₹ 400 billion. Calculate the total value of savings and taxes in this economy.

(a) ₹ 100 billion

(b) ₹ 200 billion

(c) ₹ 300 billion

(d) ₹ 400 billion

103. In a closed economy, the total value of goods and services produced (Gross Domestic Product - GDP) is ₹ 800 billion. The total value of consumption expenditure is ₹ 600 billion. Calculate the total value of savings in this closed economy.

(a) ₹ 100 billion

(b) ₹ 200 billion

(c) ₹ 300 billion

(d) ₹ 400 billion

104. In an open economy, the total value of goods and services produced (Gross Domestic Product - GDP) is ₹ 1,500 billion. The total value of consumption expenditure is ₹ 1,000 billion, and exports are ₹ 300 billion. Calculate the total value of savings in this open economy.

(a) ₹ 300 billion

(b) ₹ 500 billion

(c) ₹ 800 billion

(d) ₹ 1,200 billion

105. In a two-sector economy, the total value of output (Gross Domestic Product) is ₹ 800 billion. Calculate the total value of income generated in the economy.

(a) ₹ 800 billion

(b) ₹ 600 billion

(c) ₹ 400 billion

(d) ₹ 1,200 billion

106. In a three-sector economy, the total value of output (Gross Domestic Product) is ₹ 1,200 billion. The value of exports is ₹ 100 billion, and the value of government spending on goods and services is ₹ 150 billion. Calculate the total value of income generated in the economy.

(a) ₹ 1,200 billion

(b) ₹ 1,050 billion

(c) ₹ 950 billion

(d) ₹ 1,000 billion

107. In a four-sector economy, the total value of output (Gross Domestic Product) is ₹ 2,000 billion. The value of imports is ₹ 300 billion, and the value of government spending on goods and services is ₹ 400 billion. Calculate the total value of income generated in the economy.

(a) ₹ 1,300 billion

(b) ₹ 1,600 billion

(c) ₹ 2,000 billion

(d) ₹ 2,700 billion

108. Consider a three-stage production process. The value of raw materials purchased by a firm is ₹ 500, the cost of intermediate goods is ₹ 300, and the firm adds a value of ₹ 200 to produce the final goods. Calculate the value added by the firm.

(a) ₹ 200

(b) MOO

(c) ₹ 500

(d) ₹ 1,000

109. Consider a four-stage production process. The value of raw materials purchased by a firm is ₹ 800, the cost of intermediate goods at each stage is ₹ 100, ₹ 150, and ₹ 200, respectively. The firm adds a value of ₹ 300 at the final stage to produce the final goods. Calculate the value added by the firm.

(a) MOO

(b) ₹ 150

(c) ₹ 300

(d) ₹ 450

110. Consider a two-stage production process. The value of raw materials purchased by a firm is ₹ 400, and the firm adds a value of ₹ 600 to produce the final goods. Calculate the value added by the firm.

(a) ₹ 400

(b) ₹ 400

(c) ₹ 1,000

(d) ₹ 200

111. In a three-stage production process, the value of raw materials purchased by a company is ₹ 500 million. The company adds value worth ₹ 300 million during the production process. Calculate the total value of the final product.

(a) ₹ 100 million

(b) ₹ 200 million

(c) ₹ 300 million

(d) ₹ 800 million

112. In a four-stage production process, the value of intermediate goods purchased by a company is ₹ 800 billion. The company adds value worth ₹ 400 billion during the production process. Calculate the total value of the final product.

(a) ₹ 200 billion

(b) ₹ 400 billion

(c) ₹ 800 billion

(d) ₹ 1,200 billion

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

(a) ₹ 500 million

(b) ₹ 1,000 million

(c) ₹ 1,500 million

(d) ₹ 2,000 million

114. In an economy, the following income components are given: employee compensation (₹ 300 billion), rents (₹ 50 billion), interest (₹ 100 billion), proprietor's income (₹ 150 billion), corporate profits (₹ 200 billion), and taxes on production and imports (₹ 50 billion). Calculate the Gross Domestic Product (GDP) using the Income Method.

(a) ₹ 500 billion

(b) ₹ 700 billion

(c) ₹ 800 billion

(d) ₹ 850 billion

115. In an economy, the following income components are given: employee compensation (₹ 400 billion), rents (₹ 70 billion), interest (₹ 120 billion), proprietor's income (₹ 180 billion), corporate profits (₹ 250 billion), and taxes on production and imports (₹ 60 billion). Calculate the Gross Domestic Product (GDP) using the Income Method.

(a) ₹ 800 billion

(b) ₹ 900 billion

(c) ₹ 1,000 billion

(d) ₹ 1,080 billion

116. In an economy, the following income components are given: employee compensation (₹ 500 billion), rents (₹ 90 billion), interest (₹ 150 billion), proprietor's income (₹ 200 billion), corporate profits (₹ 300 billion), and taxes on production and imports (₹ 80 billion). Calculate the Gross Domestic Product (GDP) using the Income Method.

(a) ₹ 950 billion

(b) ₹ 1,000 billion

(c) ₹ 1,200 billion

(d) ₹ 1,220 billion

117. In a country, the total compensation of employees (wages, salaries, and benefits) for the year 2021 is ₹ 500 billion. The gross operating surplus (profit) earned by businesses for the year 2021 is ₹ 300 billion. Calculate the Gross National Income (GNI) for the year 2021.

(a) ₹ 200 billion
(b) ₹ 500 billion
(c) ₹ 800 billion

(d) ₹ 300 billion

118. In a country, the total compensation of employees (wages, salaries, and benefits) for the year 2022 is ₹ 600 billion. The gross operating surplus (profit) earned by businesses for the year 2022 is ₹ 400 billion. Calculate the Gross National Income (GNI) for the year 2022.

(a) ₹ 1,000 billion

(b) ₹ 400 billion

(c) ₹ 600 billion

(d) ₹ 1,200 billion

---

119. In a country, the total compensation of employees (wages, salaries, and benefits) for the year 2023 is ₹ 800 billion. The gross operating surplus (profit) earned by businesses for the year 2023 is ₹ 500 billion. Calculate the Gross National Income (GNI) for the year 2023.

(a) ₹ 1,300 billion

(b) ₹ 1,500 billion

(c) ₹ 800 billion

(d) ₹ 300 billion

---

120. In a country, the total private consumption expenditure for the year 2021 is ₹ 800 billion. The total investment expenditure for the year 2021 is ₹ 200 billion. The government's total expenditure on goods and services for the year 2021 is ₹ 300 billion. Calculate the Gross Domestic Product (GDP) for the year 2021.

(a) ₹ 500 billion

(b) ₹ 1,000 billion

(c) ₹ 1,300 billion

(d) ₹ 900 billion

---

121. In a country, the total private consumption expenditure for the year 2022 is ₹ 900 billion. The total investment expenditure for the year 2022 is ₹ 250 billion. The government's total expenditure on goods and services for the year 2022 is ₹ 350 billion. Calculate the Gross Domestic Product (GDP) for the year 2022.

(a) ₹ 1,500 billion

(b) ₹ 1,100 billion

(c) ₹ 1,200 billion

(d) ₹ 1,500 billion

---

122. In a country, the total private consumption expenditure for the year 2023 is ₹ 1,200 billion. The total investment expenditure for the year 2023 is ₹ 300 billion. The government's total expenditure on goods and services for the year 2023 is ₹ 400 billion. Calculate the Gross Domestic Product (GDP) for the year 2023.

(a) ₹ 1,500 billion

(b) ₹ 1,900 billion

(c) ₹ 1,900 billion (adjusted for imports)

(d) ₹ 1,500 billion (adjusted for exports)

---

123. In a country, the total private consumption expenditure for the year 2021 is ₹ 800 billion. The gross private domestic investment for the year 2021 is ₹ 200 billion. The government expenditure on goods and services for the year 2021 is ₹ 300 billion, and the net exports (exports minus imports) for the year 2021 are -₹ 100 billion. Calculate the Gross Domestic Product (GDP) for the year 2021.

(a) ₹ 1,000 billion

(b) ₹ 1,000 billion

(c) ₹ 1,200 billion

(d) ₹ 900 billion

---

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

(a) ₹ 1,350 billion

(b) ₹ 1,350 billion

(c) ₹ 1,550 billion

(d) ₹ 1,100 billion

---

125. In a country, the total private consumption expenditure for the year 2023

is ₹ 1,500 billion. The gross private domestic investment for the year 2023 is ₹ 400 billion. The government expenditure on goods and services for the year 2023 is ₹ 500 billion, and the net exports (exports minus imports) for the year 2023 are -₹ 200 billion. Calculate the Gross Domestic Product (GDP) for the year 2023.

(a) ₹ 1,300 billion

(b) ₹ 1,300 billion

(c) ₹ 1,600 billion

(d) ₹ 1,200 billion

126. The System of Regional Accounts in India provides economic data at which level of geographical aggregation?

(a) District level

(b) State level

(c) National level

(d) International level

127. Which government agency is responsible for preparing the System of Regional Accounts in India?

(a) Ministry of Finance

(b) Reserve Bank of India (RBI)

(c) Central Statistical Office (CSO)

(d) National Institution for Transforming India (NITI Aayog)

128. The System of Regional Accounts in India provides data on which of the following aspects at the state level?

(a) Population and demographic trends

(b) Agricultural production and land use

(c) Industrial output and manufacturing activities

(d) All of the above

129. Which of the following is NOT a primary purpose of the System of Regional Accounts in India?

(a) Facilitating inter-state economic comparisons

(b) Informing state-level economic planning and policy formulation

(c) Identifying regional disparities and inequalities

(d) Regulating regional fiscal policies

130. Which statistical yearbook published by the CSO includes the data and analysis on the System of Regional Accounts in India?

(a) Economic Survey of India

(b) Indian Financial Yearbook

(c) India in Figures

(d) National Accounts Statistics

131. What is the primary purpose of the System of Regional Accounts in India?

(a) To estimate the national income of the country

(b) To measure the economic growth of different states

(c) To calculate the GDP of individual cities

(d) To track the inflation rate at the regional level

132. Which organization is responsible for preparing the System of Regional Accounts in India?

(a) Reserve Bank of India (RBI)

(b) Ministry of Finance

(c) Central Statistical Office (CSO)

(d) National Sample Survey Office (NSSO)

133. Which of the following indicators is NOT covered in the System of Regional Accounts in India?

(a) Gross State Domestic Product (GSDP)

(b) Per Capita Income of states

(c) Industrial Production Index of states

(d) National Unemployment Rate

134. Which method is used for estimating the Gross State Domestic Product (GSDP) in India?

(a) Production Approach

(b) Income Approach

(c) Expenditure Approach

(d) Value Added Approach

135. The System of Regional Accounts in India provides data at which level of geographical aggregation?

(a) District level

(b) City level

(c) State level

(d) Village level

136. Gross Domestic Product (GDP) measures:

(a) The total value of goods and services produced within a country's border ?

(b) The total value of goods and services consumed by households.

(c) The total value of goods and services exported by a country.

(d) The total value of goods and services imported by a country.

137. Which of the following statements is true regarding the relationship between GDP and welfare?

(a) Higher GDP always leads to higher welfare for all citizens.

(b) Higher GDP guarantees improved living standards for all citizens.

(c) GDP is a comprehensive measure of societal well-being.

(d) GDP per capita is a useful but incomplete indicator of welfare. Answer:

(d) GDP per capita is a useful but incomplete indicator of welfare.

138. Which of the following factors is NOT considered in the calculation of GDP?

(a) Government spending on infrastructure projects

(b) Investment in new factories and equipment

(c) Income earned by citizens working abroad

(d) Transfer payments, such as social welfare benefits

139. Which of the following situations can lead to a discrepancy between GDP growth and citizens' well-being?

(a) When inflation is high, and GDP growth is low

(b) When income inequality increases during a period of economic expansion

(c) When a country's exports decrease, and GDP growth slows down

(d) When government spending increases to fund public services and welfare programs

140. Which of the following is a limitation of using GDP as a measure of welfare?

(a) GDP does not account for the value of goods and services produced in the informal sector.

(b) GDP does not consider government spending on defense and - security.

(c) GDP does not take into account changes in the trade balance.

(d) GDP does not capture the impact of technological advancements on productivity.

141. Gross Domestic Product (GDP) is a measure of:

(a) The total population of a country

(b) The total value of goods and services produced in a country

(c) The total government spending in a country

(d) The total imports and exports of a country

142. Which of the following statements is true regarding GDP and welfare?

(a) A higher GDP always indicates higher welfare for the population.

(b) GDP is unrelated to the well-being and welfare of the population.

(c) GDP is a good indicator of economic growth but does not fully capture the overall welfare of the population.

(d) GDP is a measure of income distribution among the population

143. Which of the following is an example of a limitation of using GDP as a measure of welfare?

(a) GDP includes the value of illegal activities, such as drug trafficking.

(b) GDP accounts for environmental degradation and pollution.

(c) GDP reflects the level of education and healthcare in a country.

(d) GDP considers the distribution of income among different income groups.

---

144. Which term refers to the total GDP adjusted for inflation or changes in price levels?

(a) Real GDP

(b) Nominal GDP

(c) Per capita GDP

(d) Gross National Product (GNP)

---

145. Which of the following factors is NOT considered in GDP calculations?

(a) Government spending on infrastructure projects

(b) Private investment in businesses and factories

(c) Household savings and personal investments

(d) Value of intermediate goods used in the production process

---

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

(a) GDP does not account for changes in the population size.

(b) GDP includes the value of all final goods and services.

(c) GDP considers income distribution among different income groups.

(d) GDP measures the total value of goods and services produced.

---

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

(a) Inclusion of government transfer payments

(b) Exclusion of household consumption

(c) Exclusion of exports of goods and services

(d) Inclusion of imports of goods and services

---

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

(a) Economic growth rate

(b) Inflation rate

(c) Income distribution

(d) Unemployment rate

---

149. Which challenge arises due to the difficulty of accurately measuring the informal or underground economy?

(a) Seasonal adjustments

(b) Double-counting of intermediate goods

(c) Price fluctuations

(d) Shadow economy estimation

---

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

(a) GDP ignores the value of leisure time and non-market activities.

(b) GDP does not account for environmental degradation and resource depletion.

(c) GDP considers the level of investment in human capital and education.

(d) GDP focuses solely on economic activities and production.

---

151. Which of the following is a limitation of using National Income as a measure of economic welfare?

(a) It does not account for income inequality.

(b) It includes the value of illegal activities in the economy.

(c) It is difficult to calculate accurately.

(d) It is not relevant for developed countries.

152. Which challenge arises due to the existence of the informal or underground economy?

(a) Difficulty in measuring the overall economic output accurately

(b) The inclusion of illegal activities in the GDP calculation

(c) Inflationary pressure on the economy

(d) Increased government expenditure

153. Which of the following is a limitation of using GDP as an indicator of well-being in terms of environmental sustainability?

(a) GDP includes the value of illegal activities.

(b) GDP does not consider income distribution.

(c) GDP growth may be accompanied by environmental degradation.

(d) GDP does not account for changes in price levels.

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

(a) Overestimation of economic output

(b) Difficulty in calculating GDP at factor cost

(c) Underestimation of economic output and welfare

(d) Overestimation of economic growth rate

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

(a) Difficulty in calculating inflation rate

(b) Changes in government policies

(c) Difficulty in measuring real GDP

(d) Difficulty in estimating the savings rate

156. National income accounting is a method used to:

(a) Calculate the total profits of private companies

(b) Measure the economic performance of a country

(c) Determine the total savings of the government

(d) Assess the inflation rate in the economy

157. Gross Domestic Product (GDP) is defined as:

(a) The total value of all goods and services produced within a country's borders in a specific time period

(b) The total value of all imports and exports of a country

(c) The total value of all goods and services produced by a country's citizens, regardless of their location

(d) The total value of all goods and services produced by a country's companies, regardless of their ownership

158. Which of the following is NOT included in GDP calculations?

(a) Investment spending by businesses

(b) Government spending on infrastructure

(c) Social security payments to retirees

(d) Consumer spending on durable goods

159. The income approach to calculating GDP:

(a) Adds up all the wages, salaries, and profits earned in an economy

(b) Only considers the total spending on final goods and services

(c) Focuses on the net exports of a country

(d) Includes only the value of intermediate goods and services

160. Real GDP differs from Nominal GDP in that:

(a) Real GDP accounts for inflation, while Nominal GDP does not

(b) Real GDP includes government spending, while Nominal GDP does not

(c) Real GDP is measured in current market prices, while Nominal GDP is adjusted for inflation

(d) Real GDP considers only the value of goods, while Nominal GDP includes services as well

---

161. National Income is calculated as:

(a) GDP minus depreciation

(b) GDP plus net exports

(c) GDP minus indirect taxes and subsidies

(d) GDP minus government spending

---

162. The expenditure approach to calculating GDP:

(a) Adds up all the wages, salaries, and profits earned in an economy

(b) Focuses on the total spending on final goods and services

(c) Includes only the value of intermediate goods and services

(d) Considers the net exports of a country

---

163 . Which of the following is a component of Gross Domestic Product (GDP)?

(a) Money supply in the economy

(b) Unemployment rate

(c) Government budget deficit

(d) Investment spending by businesses

---

164. National income estimates are essential for:

(a) Calculating the profits of individual companies

(b) Assessing the distribution of wealth in a country.

(c) Determining the exchange rates between currencies

(d) Monitoring the stock market performance

---

165. The primary use of national income estimates is to:

(a) Measure the overall happiness and well-being of citizens

(b) Determine the economic growth rate of the country

(c) Calculate the total value of imports and exports

(d) Evaluate the effectiveness of foreign aid programs

---

166. Why is it important to calculate Gross Domestic Product (GDP)?

(a) To understand the unemployment rate in the country

(b) To analyze the overall debt of the government

(c) To determine the total value of all goods and services produced in the economy

(d) To evaluate the efficiency of the banking sector

---

167. National income estimates help in comparing the economic performance of different countries by:

(a) Converting all currencies to a common unit of measurement

(b) Focusing solely on the GDP growth rate

(c) Ignoring the impact of inflation on the economy

(d) Excluding the service sector from the calculations

---

168. The per capita income, derived from national income estimates, is useful for:

(a) Understanding the total population of a country

(b) Analyzing the average income of individuals in the country

(c) Measuring the total number of employed people

(d) Evaluating the performance of the agricultural sector

---

169 . One of the limitations of using national income estimates is that they:

(a) Cannot account for the underground economy

(b) Overstate the value of intermediate goods

(c) Ignore the impact of international trade on the economy

(d) Focus excessively on government spending

170. National income estimates help policymakers in making informed decisions about:

(a) The promotion of consumer spending

(b) The allocation of resources and budget planning

(c) The reduction of inflation rates

(d) The regulation of the stock market

171. In times of economic downturn, national income estimates can be used to:

(a) Encourage more foreign investments

(b) Identify the sectors that require government bailouts

(c) Increase taxes on businesses and individuals

(d) Decrease government spending on infrastructure

172. Gross Domestic Product (GDP) is the total value of:

(a) All goods and services produced within a country's borders in a specific time period

(b) All goods and services produced by a country's citizens, regardless of their location

(c) All goods and services produced by a country's companies, regardless of their ownership

(d) All final goods and services produced within a country's borders in a specific time period

173. Gross National Product (GNP) differs from GDP in that GNP:

(a) Includes only the value of final goods and services

(b) Excludes the value of exports

(c) Accounts for depreciation of capital goods

(d) Includes the value of goods and services produced by a country's citizens abroad

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

(a) Adding depreciation to GDP

(b) Subtracting depreciation from GDP

(c) Adding depreciation to GNP

(d) Subtracting depreciation from GNP

175. National Income (NI) is calculated by:

(a) Adding indirect taxes to NNP

(b) Subtracting indirect taxes from NNP

(c) Adding net foreign factor income to NNP

(d) Subtracting net foreign factor income from NNP

176 . Personal Income (PI) is the total income received by:

(a) Individuals before paying personal taxes

(b) Individuals after paying personal taxes

(c) Households before paying personal taxes

(d) Households after paying personal taxes

177. Disposable Income (Dl) is calculated by:

(a) Adding personal taxes to personal income

(b) Subtracting personal taxes from personal income

(c) Adding corporate taxes to personal income

(d) Subtracting corporate taxes from personal income

178. Which of the following represents the broadest measure of a country's national income?

(a) GDP

(b) GNP

(c) NNP

(d) PI

179. Gross National Income (GNI) is defined as:

(a) The total value of all goods and services produced by a country's companies, regardless of their ownership

(b) The total value of all goods and services produced by a country's citizens, regardless of their location

(c) The total value of all final goods and services produced within a country's borders in a specific time period

(d) The total value of all goods and services produced within a country's borders, excluding foreign factors of production

---

180 . In India, the organization responsible for estimating national income is:

(a) Reserve Bank of India (RBI)

(b) Ministry of Finance

(c) Central Statistical Office (CSO)

(d) Planning Commission

---

181. Which of the following methods is primarily used to estimate national income in India?

(a) Production approach

(b) Expenditure approach

(c) Income approach

(d) All of the above

---

182. The base year for estimating Gross Domestic Product (GDP) using constant prices in India is typically updated every:

(a) 5 years

(b) 7 years

(c) 10 years

(d) 12 years

---

183. In India, Gross Domestic Product (GDP) at market prices is calculated by adding:

(a) Indirect taxes and depreciation to GDP at factor cost

(b) Indirect taxes and net-factor income from abroad to GDP at factor cost

(c) Indirect taxes and subsidies to GDP at factor cost

(d) Indirect taxes and net factor income from abroad to GDP at market prices

---

184. National Income in India is also known as:

(a) Gross National Product (GNP)

(b) Net Domestic Product (NDP)

(c) Net National Product (NNP)

(d) Gross Domestic Product (GDP)

---

185. The Central Statistical Office (CSO) in India operates under the purview of the:

(a) Ministry of Finance

(b) Ministry of Statistics and Programme Implementation

(c) Reserve Bank of India (RBI)

(d) Planning Commission

---

186. In the context of India's national income estimation, GVA stands for:

(a) Gross Value Added

(b) Gross Variable Analysis

(c) Government Value Assessment

(d) Government Variable Account

---

187. Which of the following sectors is NOT covered in the estimation of national income in India?

(a) Agriculture and Allied Activities

(b) Manufacturing

(c) Financial Services

(d) Household Consumption

---

188. The System of Regional Accounts (SRA) in India aims to:

(a) Calculate the national income of India

(b) Measure the economic performance of different states and regions within India

(c) Assess the exchange rates between different Indian states

(d) Determine the total imports and exports of each Indian state

189. The Ministry responsible for the compilation of the System of Regional Accounts in India is:

(a) Ministry of Finance

(b) Ministry of Commerce and Industry

(c) Ministry of Home Affairs

(d) Ministry of Statistics and Programme Implementation

---

190. The base year used for estimating the System of Regional Accounts in India is generally revised every:

(a) 3 years

(b) 5 years

(c) 7 years

(d) 10 years

---

191. The regional accounts data in India provides insights into:

(a) The inflation rate in each state

(b) The fiscal deficit of the central government

(c) The economic activities and their contribution to each state's GDP

(d) The foreign direct investments received by different Indian states

---

192. Which of the following is NOT a component of the System of Regional[1] Accounts in India?

(a) Gross State Domestic Product (GSDP)

(b) Per Capita Income of states

(c) Sectoral distribution of states' population

(d) International trade data of each state

---

193 . The primary source of data used for compiling the System of Regional Accounts in India is:

(a) Annual reports of different state governments

(b) Survey data collected by private agencies

(c) Data from the Reserve Bank of India (RBI)

(d) Data from various government departments and surveys conducted by the Central Statistical Office (CSO)

---

194. The System of Regional Accounts helps in identifying the:

(a) Number of state-owned enterprises in each region

(b) Level of unemployment in the country

(c) Disparities in economic growth and development among states

(d) Composition of the national budget

---

195. One of the limitations of national income computation is that it:

(a) Ignores the contribution of the services sector to the economy

(b) Overestimates the value of intermediate goods and services

(c) Excludes the impact of inflation on the economy

(d) Does not consider non-market activities and the informal economy

---

196. The challenge of accurately measuring national income arises due to:

(a) Difficulties in collecting data on government spending

(b) Limited availability of data on international trade

(c) The constantly changing structure of the economy

(d) The exclusion of the financial sector from the calculations

---

197. Which of the following is NOT a challenge in computing national income?

(a) Difficulty in accounting for depreciation of assets

(b) Estimating the value of household production and unpaid work

(c) Dealing with fluctuations in exchange rates

(d) Accounting for income generated from illegal activities

---

198. National income computation may not accurately reflect the economic well-being of:

(a) The government sector

(b) The manufacturing sector

(c) The agricultural sector

(d) Different income groups within the population

---

199. One of the limitations of using Gross Domestic Product (GDP) as a measure of welfare is that it:

(a) Does not account for income distribution within the country

(b) Ignores the value of net exports in the economy

(c) Overestimates the contribution of government spending to the economy

(d) Excludes the value of investment spending by businesses

---

200. The concept of national income fails to consider the economic value of:

(a) Social security payments to retirees

(b) Imports of goods and services

(c) Gross fixed capital formation

(d) National debt and government borrowing

---

201. Which of the following does NOT pose a challenge in calculating Gross National Product (GNP)?

(a) Accounting for the income earned by foreign residents in the country

(b) Estimating the value of exports of goods and services

(c) Dealing with changes in the national currency's exchange rate

(d) Measuring the value of capital goods used in the production process

CHAPTER 6 DETERMINATION OF NATIONAL INCOME

Unit:2 The Keynesian Theory of Determination of National Income

202. What is the central proposition of Keynesian theory regarding the determination of national income?

(a) National income is determined by aggregate supply.

(b) National income is determined by aggregate demand.

(c) National income is determined by both aggregate supply and aggregate demand.

(d) National income is determined by the government's fiscal policy.

---

203. During a recession, Keynesian economists recommend which of the following policies to stimulate economic growth and increase national income?

(a) Decreasing government spending and raising taxes.

(b) Decreasing the money supply to control inflation.

(c) Increasing government spending and lowering taxes.

(d) Reducing exports to protect domestic industries.

---

204. In the Keynesian model, what is the role of private investment in determining national income?

(a) Private investment has no impact on national income.

(b) Private investment solely determines national income.

(c) Private investment is a component of aggregate demand affecting national income.

(d) Private investment only affects the inflation rate, not national income.

---

205. According to the Keynesian theory, what can lead to a situation of "underemployment equilibrium" in an economy?

(a) When aggregate demand exceeds aggregate supply.

(b) When aggregate supply exceeds aggregate demand.

(c) When there is full employment in the economy.

(d) When aggregate demand is insufficient to create full employment.

---

206. Which of the following represents the primary tool for the government to influence aggregate demand and stabilize the economy, according to Keynesian economics?

(a) Monetary policy.

(b) Fiscal policy.

(c) Supply-side policies.

(d) Exchange rate policy.

---

207. Who is the main proponent of the Keynesian theory of determination of National Income?

(a) Adam Smith

(b) John Maynard Keynes

(c) Milton Friedman

(d) Friedrich Hayek

---

208. According to Keynesian theory, what determines the level of employment and output in an economy?

(a) Consumer preferences and saving habits

(b) Government spending and taxation policies

(c) The interaction of aggregate demand and aggregate supply

(d) The natural rate of unemployment

---

209. The central idea of the Keynesian theory is that:

(a) Government intervention is necessary to stabilize the economy

(b) The market forces alone can ensure full employment and economic stability

(c) Tax cuts are the most effective tool for economic growth

(d) Private investment is the primary driver of economic prosperity

---

210. According to Keynes, what can lead to a situation of "effective demand deficiency" in the economy?

(a) Excessive government spending

(b) High levels of consumer saving

(c) Low interest rates set by the central bank

(d) High levels of inflation

---

211. Keynesian theory suggests that during an economic downturn, the government should implement:

(a) Austerity measures to reduce public debt

(b) Supply-side policies to boost production

(c) Contractionary monetary policies to control inflation

(d) Expansionary fiscal policies to increase spending

---

212. Keynes argued that during periods of economic recession or depression, the government should:

(a) Increase taxes to reduce budget deficits

(b) Reduce government spending to control inflation

(c) Decrease interest rates to encourage private investment

(d) Increase government spending to stimulate aggregate demand

---

213. The concept of "Multiplier Effect" in the Keynesian theory suggests that:

(a) Changes in government spending have a larger impact on National Income than changes in taxes.

(b) A change in investment leads to a proportionate change in National Income.

(c) Increases in exports result in higher economic growth and employment.

(d) Changes in consumption have a direct and immediate impact on investment.

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

(a) Demand-pull inflation

(b) Cost-push inflation

(c) Deflation and unemployment

(d) Stagflation

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

(a) Government and households

(b) Business firms and households

(c) Government and business firms

(d) Foreign sector and households

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

(a) Business firms

(b) Households

(c) Government

(d) Foreign sector

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

(a) Government

(b) Households

(c) Business firms

(d) Foreign sector

218. Which of the following flows represents the payment made by business firms to households for providing factors of production?

(a) Factor payments

(b) Transfer payments

(c) Investment spending

(d) Consumption expenditure

219. In the circular flow model, which sector provides funds to business firms for investment purposes?

(a) Government

(b) Households

(c) Business firms

(d) Foreign sector

220. In the circular flow model, households are the:

(a) Sellers of goods and services and buyers of factors of production

(b) Buyers of goods and services and sellers of factors of production

(c) Buyers of goods and services and buyers of factors of production

(d) Sellers of goods and services and sellers of factors of production

221. Which of the following best represents the flow of goods and services in the circular flow model?

(a) Money flows from households to businesses for goods and services.

(b) Goods and services flow from households to businesses in exchange for money.

(c) Money flows from businesses to households for factors of production.

(d) Factors of production flow from businesses to households in exchange for money.

222. Savings in the circular flow model refer to:

(a) The money that businesses save from their profits

(b) The money that households save from their income

(c) The money that businesses invest in new projects

(d) The money that households spend on goods and services

223. In the circular flow model, the total value of goods and services produced in the economy is measured by:

(a) Gross Domestic Product (GDP)

(b) Gross National Product (GNP)

(c) Net Domestic Product (NDP)

(d) Net National Product (NNP)

224. In the circular flow model, households receive income in the form of:

(a) Profits

(b) Taxes

(c) Wages, rent, and interest

(d) Government transfers

225. Which component of the circular flow represents the total spending by households on goods and services?

(a) Savings

(b) Investment

(c) Government spending

(d) Consumption expenditure

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

(a) Consumption expenditure

(b) Taxes paid to the government

(c) Investment by firms

(d) Government spending

227. The circular flow model assumes that all income earned by households is either spent on consumption or saved, and there is no:

(a) Government intervention

(b) Investment by firms

(c) Financial sector

(d) Foreign trade

228. In economics, the study of how individuals and societies allocate limited resources to satisfy their unlimited wants is known as:

(a) Microeconomics

(b) Macroeconomics

(c) Economic planning

(d) Economics

229. The total value of all final goods and services produced within a country's borders during a specific time period is known as:

(a) Gross Domestic Product (GDP)

(b) Gross National Product (GNP)

(c) Net National Product (NNP)

(d) National Income

230. Which of the following is NOT a factor of production in economics?

(a) Land

(b) Labor

(c) Capital

(d) Money

231. The price at which the quantity demanded of a good or service equals the quantity supplied is known as:

(a) Equilibrium price

(b) Market price

(c) Maximum price

(d) Minimum price

232. The study of how individuals and firms make decisions and interact in markets is known as:

(a) Macroeconomics

(b) Microeconomics

(c) Economic planning

(d) Econometrics

233. Which of the following is a basic concept in economics that refers to the limited nature of resources?

(a) Opportunity cost
(b) Scarcity
(c) Inflation
(d) Gross Domestic Product (GDP)

234. Opportunity cost is defined as:

(a) The cost of producing one additional unit of a good or service

(b) The total cost of all inputs used in the production process

(c) The highest-valued alternative given up when a choice is made

(d) The difference between total revenue and total cost

235. Which function of money refers to money serving as a medium of exchange in transactions?

(a) Store of value

(b) Unit of account

(c) Medium of exchange

(d) Standard of deferred payment

236. The Consumer Price Index (CPI) is a measure of:

(a) The overall level of prices in an economy

(b) The total output produced in an economy

(c) The unemployment rate in an economy

(d) The government's budget deficit

237. The total market value of all final goods and services produced within a country's borders during a specific time period is known as:

(a) Gross Domestic Product (GDP)

(b) Gross National Product (GNP)

(c) Net Domestic Product (NDP)

(d) Net National Product (NNP)

238. The total value of all goods and services produced within a country's borders during a specific time period is known as:

(a) Gross National Product (GNP)

(b) Gross Domestic Product (GDP)

(c) Net Domestic Product (NDP)

(d) Net National Product (NNP)

239. The measure of the responsiveness of quantity demanded of a good to a change in its price is known as:

(a) Elasticity of demand

(b) Elasticity of supply

(c) Marginal utility

(d) Consumer surplus

240. Which type of unemployment occurs when there is a temporary mismatch between job seekers and available job vacancies?

(a) Cyclical unemployment

(b) Frictional unemployment

(c) Structural unemployment

(d) Seasonal unemployment

241. The interest rate at which a central bank lends money to commercial banks is known as:

(a) Prime rate

(b) Discount rate

(c) Federal funds rate

(d) LIBOR rate

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

(a) 1,500 (b) 500

(c) 1,000 (d) 2,000

243. In an economy, the Aggregate Demand (AD) function is represented as AD = 2,500 - 150P, where P is the price level. Calculate the Aggregate Demand when the price level is ₹ 10.

(a) 1,500

(b) 2,500

(c) 2,000

(d) 3,000

244 . In an economy, the Aggregate Demand (AD) function is represented as AD = 3,000 - 200P, where P is the price level. Calculate the Aggregate Demand when the price level is ₹ 15.

(a) 2,500

(b) 3,000

(c) 1,500

(d) 2,000

245. In an economy, the aggregate demand (AD) function is represented as AD = 2,000 - 100P, where P is the price level. Calculate the equilibrium level of aggregate demand when the price level (P) is ₹ 15.

(a) ₹ 1,000

(b) ₹ 2,500

(c) ₹ 1,500

(d) ₹ 500

246. In an economy, the consumption function is represented as C = 500 + 0.8Y, where Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 2,000.

(a) ₹ 1,800

(b) ₹ 1,900

(c) ₹ 2,500

(d) ₹ 2,200

247. In an economy, the consumption function is represented as C = 500 + 0.8Y, where C is consumption and Y is disposable income. Calculate the level of consumption when disposable income (Y) is ₹ 1.000

(a) ₹ 1,200

(b) ₹ 1,300

(c) ₹ 1,400

(d) ₹ 1,500

248. In an economy, the consumption function is represented as C = 1,000 + 0.8Y, where Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 2,000

(a) ₹ 800

(b) ₹ 1,200

(c) ₹ 2,400

(d) ₹ 2,800

249. In an economy, the consumption function is represented as C = 800 + 0.6Y, where Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 3 000

(a) ₹ 1,000

(b) ₹ 1,800

(c) ₹ 2,200

(d) ₹ 1,400

250. In an economy, the consumption function is represented as C = 800 + 0.6Y, where Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 2,500.

(a) ₹ 1,500

(b) ₹ 2,000

(c) ₹ 2,200

(d) ₹ 2,800

251. In an economy, the consumption function is represented as C = 1,000 + 0.8Y, where C is the consumption and Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 5,000.

(a) ₹ 1,800

(b) ₹ 3,800

(c) ₹ 4,000

(d) ₹ 5,000

252. In an economy, the consumption function is represented as C = 1,000 + 0.6Y, where C is the consumption and Y is the disposable income. Calculate the level of saving when the disposable income (Y) is ₹ 4,000.

(a) ₹ 2,400

(b) ₹ 1,600

(c) ₹ 2,000

(d) ₹ 1,000

253. In an economy, the consumption function is represented as C = 800 + 0.6Y, where C is the consumption, Y is the

disposable income, and S is the saving. Calculate the level of saving when the disposable income (Y) is ₹ 2,000.

(a) ₹ 1,200

(b) ₹ 800

(c) ₹ 400

(d) ₹ 1,600

254. In an economy, the consumption function is represented as C = 1,000 + 0.6Y, where C is the consumption, and Y is the disposable income. Calculate the level of saving when the disposable income (Y) is ₹ 4,000.

(a) ₹ 600

(b) ₹ 1,600

(c) ₹ 2,400

(d) ₹ 2,600

255. In an economy, the short-run aggregate supply (SRAS) curve is represented as SRAS = 1,500 + 0.5P, where P is the price level. Calculate the level of aggregate supply when the price level (P) is ₹ 10.

(a) 1,550

(b) 2,000

(c) 2,500

(d) 1,000

256. In an economy, the short-run aggregate supply (SRAS) curve is represented as SRAS = 2,000 + 100P, where P is the price level. Calculate the level of aggregate supply when the price level (P) is ₹ 10

(a) 2,100

(b) 3,000

(c) 2,500

(d) 2,200

257. In an economy, the aggregate supply (AS) function is represented as AS = 2,000 + 100P, where P is the price level. Calculate the level of aggregate supply when the price level (P) is ₹ 10.

(a) ₹ 2,000

(b) ₹ 3,000

(c) ₹ 2,100

(d) ₹ 2,500

258. In the two-sector model of National Income determination, the two main sectors are:

(a) Government and households

(b) Government and foreign trade

(c) Households and firms (businesses)

(d) Firms (businesses) and foreign trade

259. In the two-sector model, the total output produced by firms is either consumed by households or:

(a) Saved by households

(b) Invested by firms

(c) Exported to foreign countries

(d) Imported from foreign countries

260. In the two-sector model, the total income earned by households is either spent on consumption or:

(a) Invested by firms

(b) Taxed by the government

(c) Exported to foreign countries

(d) Imported from foreign countries

261. In the two-sector model, the equilibrium level of National Income occurs when:

(a) Total consumption equals total investment

(b) Total savings equals total investment

(c) Total consumption equals total savings

(d) Total income equals total expenditure

262. If total consumption in the two-sector model is greater than total income, the economy will experience:

(a) An increase in inventories

(b) An increase in investment

(c) An increase in National Income

(d) A decrease in National Income

263. In the two-sector model, the income earned by households is allocated between:

(a) Taxes and Savings

(b) Consumption and Savings

(c) Consumption and Investment

(d) Taxes and Investment

---

264. In the two-sector model, the equilibrium condition is achieved when:

(a) Consumption equals savings

(b) Consumption exceeds savings

(c) Savings exceed consumption

(d) Consumption and savings are both zero

---

265. If in the two-sector model, consumption exceeds income, it would result in:

(a) Equilibrium

(b) A budget surplus

(c) A budget deficit

(d) An increase in investment

---

266. In the two-sector model, investment is assumed to be:

(a) Autonomous

(b) Derived

(c) Dependent on consumption

(d) Dependent on government spending

---

267. In the two-sector model, the total income earned by households is divided into two components: consumption expenditure (C) and:

(a) Gross Domestic Product (GDP)

(b) Investment (I)

(c) Net exports (NX)

(d) Savings (S)

---

268. The equilibrium condition in the two-sector model occurs when:

(a) Savings are greater than investment

(b) Consumption equals investment

(c) Savings equal investment

(d) Consumption equals GDP

---

269. If, in the two-sector model, aggregate savings are greater than aggregate investment, the economy is in:

(a) Recession

(b) Equilibrium

(c) Inflation

(d) Unemployment

---

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

(a) Y = C - S

(b) Y = C + S

(c) Y = C + I

(d) Y = C -1

---

271. In an economy, the aggregate demand (A(d) function is represented as AD = 2,000 - 10OP, and the short-run aggregate supply (SRAS) function is represented as SRAS = 1,000 + 150P. Calculate the equilibrium price level (P) and output level when the economy is at equilibrium.

(a) P = ₹ 6, Y = 1,400

(b) P = ₹ 8, Y = 1,200

(c) P = ₹ 10, Y = 1,000

(d) P = ₹12, Y = 800

---

272. In an economy, the aggregate demand (AD) and short-run aggregate supply (SRAS) functions are given by AD = 2,000 - 100P and SRAS = 1.000 + 150P, where P is the price level. Calculate the equilibrium price level and output level.

(a) Equilibrium price level: ₹ 8; Output level: 1,400 units

(b) Equilibrium price level: ₹ 10; Output level: 1,500 units

(c) Equilibrium price level: ₹ 12; Output level: 1,600 units

(d) Equilibrium price level: ₹ 6; Output level: 1,200 units

273. In an economy, the aggregate demand (A(d) function is represented as AD = 2,000 - 10OP, and the short-run aggregate supply (SRAS) function is represented as SRAS = 500 + 100P. Calculate the equilibrium price level and output level in the economy.

(a) Equilibrium price level = ₹ 8; Equilibrium output level = 1,200 units

(b) Equilibrium price level = ₹ 10; Equilibrium output level = 1,000 units

(c) Equilibrium price level = ₹ 12; Equilibrium output level = 800 units

(d) Equilibrium price level = ₹ 14; Equilibrium output level = 600 units

274. The investment multiplier measures the relationship between:

(a) Consumer spending and investment

(b) Government spending and investment

(c) Investment and changes in national income

(d) Changes in national income and consumer spending

275. The formula to calculate the investment multiplier is:

(a) Investment Multiplier = 1 / Marginal Propensity to Consume (MPC)

(b) Investment Multiplier = 1 / Marginal Propensity to Save (MPS)

(c) Investment Multiplier = 1 + Marginal Propensity to Consume (MPC)

(d) Investment Multiplier = 1 + Marginal Propensity to Save (MPS)

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

(a) 1.2

(b) 5

(c) 0.2

(d) 0.8

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

(a) Smaller increase in national income

(b) Equal decrease in national income

(c) Larger increase in national income

(d) No change in national income

278. The investment multiplier assumes that:

(a) The economy is at full employment

(b) Consumer spending is constant

(c) Government spending is constant

(d) There are no leakages in the economy

279. The investment multiplier measures the:

(a) Increase in government spending due to an increase in investment

(b) Increase in investment due to an increase in government spending

(c) Total change in national income resulting from a change in investment

(d) Total change in investment resulting from a change in national income

280. The value of the investment multiplier is calculated as:

(a) 1 / Marginal Propensity to Consume (MPC)

(b) Marginal Propensity to Consume (MPC) / 1

(c) 1 / Marginal Propensity to Save (MPS)

(d) Marginal Propensity to Save (MPS) / 1

281. If the Marginal Propensity to Consume (MPC) is 0.8, the value of the investment multiplier will be:

(a) 2

(b) 3

(c) 4

(d) 5

282. The investment multiplier can be used to calculate the total change in income when there is an autonomous increase in

investment. Autonomous investment refers to investment that:

(a) Depends on changes in income

(b) Does not depend on changes in income

(c) Is made by the government sector

(d) Is made by the foreign sector

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

(a) ₹ 200 million

(b) ₹ 300 million

(c) ₹ 400 million

(d) ₹ 500 million

284. The investment multiplier measures the:

(a) Change in investment due to changes in interest rates.

(b) Change in investment due to changes in government spending.

(c) Change in national income due to changes in investment.

(d) Change in consumption due to changes in income.

285. The formula for calculating the investment multiplier is:

(a) Investment Multiplier - 1 / Marginal Propensity to Consume (MPC)

(b) Investment Multiplier = 1 / Marginal Propensity to Save (MPS)

(c) Investment Multiplier = 1 / Marginal Propensity to Import (MPI)

(d) Investment Multiplier = 1 / Marginal Propensity to Invest (MPI)

286. If the marginal propensity to consume (MPC) is 0.8, the value of the investment multiplier would be:

(a) 0.8

(b) 5

(c) 0.2

(d) 2

287. The investment multiplier is based on the idea that an initial change in investment:

(a) Directly affects consumption spending by households.

(b) Indirectly affects consumption and investment spending through changes in interest rates.

(c) Indirectly affects consumption spending by households.

(d) Directly affects government spending

288. If the investment multiplier is 4, a ₹ 100 million increase in investment will lead to a total increase in national income of:

(a) ₹ 200 million

(b) ₹ 400 million

(c) ₹ 600 million

(d) ₹ 800 million

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

(a) Government, households, and foreign trade

(b) Government, households, and financial institutions

(c) Households, firms (businesses), and foreign trade

(d) Households, firms (businesses), and financial institutions

290. In the three-sector model, the equilibrium condition occurs when:

(a) Total consumption equals total savings

(b) Total income equals total consumption

(c) Total income equals total expenditure

(d) Total savings equals total investment

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

(a) Y = C + I + G

(b) Y = C + S + T

(c) Y = C + I + NX

(d) Y = C + I - NX

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

(a) ₹ 1,050 million

(b) ₹ 1,250 million

(c) ₹ 750 million

(d) ₹ 1,350 million

293. If in the three-sector model, total consumption is ₹ 500 million, total investment is ₹ 300 million, government expenditure is ₹ 200 million, and net exports are -₹ 50 million (trade deficit), the equilibrium level of income (Y) would be:

(a) ₹ 1,050 million

(b) ₹ 950 million

(c) ₹ 750 million

(d) ₹ 1,150 million

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

(a) Households, firms, and government

(b) Households, firms, and foreign trade

(c) Households, firms, and banks

(d) Households, firms, and financial institutions

295. in a three-sector model, the equilibrium condition occurs when:

(a) Aggregate savings equal aggregate investment

(b) Aggregate consumption equals aggregate income

(c) Total exports equal total imports

(d) Total government spending equals total tax revenue

296. If, in the three-sector model, aggregate consumption is greater than aggregate income, the economy is in:

(a) Recession

(b) Equilibrium

(c) Inflation

(d) A trade surplus

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

(a) Y = C - I + X - M

(b) Y = C + I + G

(c) Y = C + S + T

(d) Y = C + I + X

298. The concept of the marginal propensity to import (MPM) in a three-sector model refers to:

(a) The change in government spending due to changes in income.

(b) The change in consumption due to changes in income.

(c) The change in imports due to changes in income.

(d) The change in investment due to changes in interest rates.

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

(a) Y = C + S

(b) Y = C + I

(c) Y = C + T

(d) Y = C + T + I

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

(a) Taxes (T)

(b) Investment (I)

(c) Exports (X)

(d) Government expenditure (G)

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

(a) Total consumption equals total income

(b) Total savings equal total investment

(c) Total consumption plus total taxes equal total income

(d) Total exports equal total imports

302. If, in the three-sector model, aggregate consumption and taxes are greater than aggregate income, it indicates that:

(a) The economy is in equilibrium

(b) The economy is in recession

(c) The economy is facing a surplus

(d) The economy is facing a deficit

303. In an economy, the government purchases of goods and services (G) are ₹ 500 billion, taxes (T) are ₹ 300 billion, transfer payments (TR) are ₹ 100 billion, and the disposable income (YD) is ₹ 1,500 billion. Calculate the level of government savings or dissavings.

(a) Government savings of ₹ 200 billion

(b) Government dissavings of ₹ 100 billion

(c) Government dissavings of ₹ 200 billion

(d) Government savings of ₹ 100 billion

304. In an economy, the government increases its spending on infrastructure projects and welfare programs. As a result, the government expenditure (G) increases by ₹ 100 billion. How will this increase in government expenditure affect the equilibrium level of income in the economy, assuming the marginal propensity to consume (MPC) is 0.8?

(a) The equilibrium level of income will increase by ₹ 100 billion.

(b) The equilibrium level of income will decrease by ₹ 100 billion.

(c) The equilibrium level of income will increase by ₹ 500 billion.

(d) The equilibrium level of income will decrease by ₹ 500 billion.

305. In an economy, the government increases its spending on infrastructure projects and welfare programs. As a result, the government expenditure (G) increases by ₹ 200 billion. How will this increase in government expenditure affect the equilibrium level of income (Y) in the economy, assuming a simple Keynesian model?

(a) The equilibrium level of income (Y) will increase by ₹ 200 billion.

(b) The equilibrium level of income (Y) will decrease by ₹ 200 billion.

(c) The equilibrium level of income (Y) will not change.

(d) The equilibrium level of income (Y) will change, but the direction of change cannot be determined without more information.

306. In an economy, the government purchases (G) are ₹ 500 billion, taxes (T) are ₹ 300 billion, transfer payments (TR) are ₹ 100 billion, and the disposable income (YD) is ₹ 1,800 billion. Calculate the level of government savings or dissavings (Sg).

(a) Government savings (Sg) = ₹ 100 billion

(b) Government savings (Sg) = -₹ 100 billion

(c) Government savings (Sg) = ₹ 300 billion

(d) Government savings (Sg) = ₹ 300 billion

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

(a) Exports (X)

(b) Imports (M)

(c) Investment(I)

(d) Government expenditure (G)

308. The equilibrium condition in the four-sector model occurs when:

(a) Total consumption equals total income

(b) Total savings equal total investment

(c) Total consumption plus total taxes equal total income

(d) Total exports equal total imports

309. If, in the four-sector model, aggregate consumption and taxes are greater than aggregate income, it indicates that:

(a) The economy is in equilibrium

(b) The economy is in recession

(c) The economy is facing a surplus

(d) The economy is facing a deficit

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

(a) Total consumption by households

(b) Total government expenditure

(c) Total investment by firms

(d) The difference between exports (X) and imports (M)

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

(a) Y = C + S

(b) Y = C + T

(c) Y = C + T + I

(d) Y = C + T + I + NX

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

(a)Households, firms (businesses), government, and foreign trade

(b)Households, firms (businesses), government, and financial institutions

(c)Households, firms (businesses), government, and banks

(d)Households, firms (businesses), government, and central bank

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

(a) Imports (M)

(b) Exports (X)

(c) Government expenditure (G)

(d) Investments (I)

314. The equilibrium condition in the four-sector model occurs when:

(a) Total consumption plus total taxes equal total income

(b) Total consumption plus total investment equal total income

(c) Total savings plus total investment equal total income

(d) Total exports equal total imports

315. If, in the four-sector model, aggregate consumption, taxes, and imports are greater than aggregate income, it indicates that:

(a) The economy is in equilibrium

(b) The economy is in recession

(c) The economy is facing a surplus

(d) The economy is facing a deficit

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

(a) Y = C + S

(b) Y = C + I

(c) Y = C + T + X

(d) Y = C + T + I + X- M

317. According to the Keynesian theory, during an economic recession, the government should:

(a) Decrease government spending to reduce budget deficits.

(b) Increase taxes to control inflation.

(c) Increase government spending to stimulate aggregate demand.

(d) Decrease interest rates to encourage private investment.

318. The Keynesian theory emphasizes that in times of economic downturns, the primary cause of unemployment is:

(a) Technological advancements leading to job losses.

(b) Structural changes in the economy.

(c) Insufficient aggregate demand.

(d) Excessive government intervention.

319. The concept of the "Multiplier Effect" in the Keynesian theory suggests that:

(a) Government spending has a larger impact on national income than changes in taxes.

(b) A change in investment leads to a proportionate change in national income.

(c) Increases in exports result in higher economic growth and employment.

(d) Changes in consumption have a direct and immediate impact on investment.

---

320. According to the Keynesian theory, during periods of high inflation, the government should focus on:

(a) Increasing government spending to boost aggregate demand.

(b) Reducing taxes to encourage consumption.

(c) Decreasing money supply and raising interest rates to control spending.

(d) Encouraging private investment through tax incentives.

---

321. The Keynesian theory highlights that during economic downturns, there may be a role for the government to engage in:

(a) Active fiscal and monetary policies to stabilize the economy.

(b) Laissez-faire and minimal government intervention.

(c) Decreasing public expenditure to reduce budget deficits.

(d) Reducing public debt to promote economic growth.

---

322. The conclusion of the Keynesian theory of determination of national income is that:

(a) The government should play a minimal role in the economy.

(b) Government intervention is necessary to stabilize the economy and achieve full employment.

(c) The economy will always be in a state of equilibrium without any government intervention.

(d) Monetary policy is the most effective tool to control inflation and unemployment.

323. According to the Keynesian theory, during times of economic recession, the government should:

(a) Decrease taxes to boost consumer spending.

(b) Decrease government spending to reduce budget deficits.

(c) Increase taxes to reduce inflation.

(d) Increase government spending to stimulate aggregate demand

---

324. The Keynesian theory suggests that changes in aggregate demand can lead to fluctuations in:

(a) The exchange rate.

(b) Interest rates.

(c) Unemployment and inflation.

(d) Stock market prices

---

325. The primary focus of the Keynesian theory is on:

(a) Long-term economic growth.

(b) Achieving price stability.

(c) Short-run economic fluctuations and stabilizing the economy.

(d) Increasing international trade.

---

326. The Keynesian theory influenced the development of economic policies during:

(a) The Great Depression in the 1930s.

(b) The Industrial Revolution in the 18th century.

(c) The Renaissance period in Europe.

(d) The post-World War II era.

---

327. The Keynesian theory of determination of national income was proposed by:

(a) Adam Smith

(b) John Maynard Keynes

(c) Milton Friedman

(d) Friedrich Hayek

---

328. According to the Keynesian theory, the level of national income is primarily determined by:

(a) Aggregate demand in the economy

(b) Aggregate supply in the economy

(c) The government s fiscal policy

(d) The central bank's monetary policy

329. The central idea of the Keynesian theory is that:

(a) Supply creates its own demand in the economy

(b) Savings and investment are equal in the long run

(c) The economy can experience prolonged periods of unemployment

(d) Government intervention is unnecessary in a free-market economy

330. Keynes argued that during economic downturns, the government should:

(a) Reduce taxes and increase government spending

(b) Increase taxes and reduce government spending

(c) Allow market forces to correct the imbalances in the economy

(d) Privatize state-owned enterprises to stimulate economic growth

331. The concept of "effective demand" in the Keynesian theory refers to:

(a) The total demand for goods and services in the economy

(b) The demand for goods and services by the government sector

(c) The demand for exports and imports in the economy

(d) The demand for consumer goods only, excluding investment

332. Keynesian policies are designed to address:

(a) Short-run fluctuations in the business cycle

(b) Long-run structural issues in the economy

(c) Inflationary pressures in the economy

(d) Excessive government debt and deficits

333. In the Keynesian theory, if aggregate demand is insufficient to achieve full employment, the result will be:

(a) Inflation

(b) Deflation

(c) Recession or unemployment

(d) Economic growth and stability

334. The Keynesian theory gained prominence during which historical period?

(a) The Great Depression of the 1930s

(b) The Industrial Revolution of the 18th century

(c) The Renaissance era in Europe

(d) The dot-com bubble of the late 1990s

335. In a simple two-sector model of the economy, the two main sectors are:

(a) Household and government

(b) Household and business

(c) Business and government

(d) Household and financial

336. The circular flow model illustrates the flow of:

(a) Goods and services and money between households and firms

(b) Goods and services and money between households and the government

(c) Goods and services and money between businesses and the government

(d) Goods and services and money between firms and financial institutions

337. In the circular flow model, households are the:

(a) Buyers of goods and services and sellers of factors of production

(b) Buyers of goods and services and buyers of factors of production

(c) Sellers of goods and services and sellers of factors of production

(d) Sellers of goods and services and buyers of factors of production

338. Which of the following represents the flow of money in the circular flow model?

(a) Money flows from households to businesses as payment for goods and services

(b) Money flows from businesses to households as payment for factors of production

(c) Money flows from businesses to the government as taxes

(d) Money flows from households to the government as taxes

339. In the circular flow model, households receive income through:

(a) Profits earned from business activities

(b) Government subsidies and transfers

(c) Wages, salaries, and rent for providing factors of production

(d) Interest earned from financial investments

340. The circular flow model assumes that:

(a) There is no saving or investment in the economy

(b) The government does not play a role in the economy

(c) There are no leakages or injections in the flow of income

(d) The economy is closed, with no foreign trade

341. Leakage in the circular flow model refers to:

(a) Money flowing out of the economy due to imports

(b) Money flowing into the economy due to exports

(c) Savings and taxes that reduce the flow of income

(d) Government spending that increases the flow of income

342. Injection in the circular flow model refers to:

(a) Money flowing into the economy due to exports

(b) Money flowing out of the economy due to imports

(c) Government spending and investments that increase the flow of income

(d) Savings and taxes that reduce the flow of income

343. Economics is the study of:

(a) How to maximize individual profits

(b) How to achieve economic equality among individuals

(c) How societies allocate scarce resources to satisfy unlimited wants

(d) How to control inflation and unemployment in the economy

344. The basic economic problem arises because:

(a) Governments are inefficient in resource allocation

(b) Human wants are unlimited, but resources are limited

(c) There is a surplus of goods and services in the market

(d) Consumers' preferences change frequently

345. The concept of opportunity cost refers to:

(a) The monetary cost of an economic decision

(b) The highest-valued alternative that must be given up when a choice is made

(c) The additional cost incurred when producing one more unit of a good

(d) The total cost of production of a firm

346. In economics, the term "demand" refers to:

(a) The quantity of a good or service that producers are willing to supply

(b) The quantity of a good or service that consumers are willing and able to buy at a given price

(c) The price at which producers are willing to sell a good or service

(d) The price at which consumers are willing and able to buy a good or service

---

347. The law of supply states that:

(a) As the price of a good or service increases, the quantity demanded will increase

(b) As the price of a good or service increases, the quantity supplied will decrease

(c) As the price of a good or service decreases, the quantity demanded will decrease

(d) As the price of a good or service decreases, the quantity supplied will increase

---

348. Which of the following is a function of money in an economy?

(a) To regulate imports and exports

(b) To control inflation and deflation

(c) To serve as a medium of exchange, unit of account, and store of value

(d) To determine the distribution of income and wealth

---

349. In a market economy, the allocation of resources is primarily determined by:

(a) The government through central planning

(b) Consumer preferences and market forces of supply and demand

(c) Labor unions and collective bargaining

(d) International trade agreements and treaties

---

350. The production possibilities frontier (PPF) represents:

(a) The maximum quantity of goods and services that a country can produce using all available resources efficiently

(b) The minimum level of production a country must achieve to meet its basic needs

(c) The total output of a country's economy in a given time period

(d) The income distribution among different income groups in an economy

---

351. In the two-sector model of national income determination, the two main sectors are:

(a) Household and government

(b) Household and business

(c) Business and government

(d) Government and foreign trade

---

352. The two-sector model simplifies the economy by considering the interactions between:

(a) Households and businesses only

(b) Households and the government only

(c) Businesses and the government only

(d) Households and the foreign sector only

---

353. In the two-sector model, households are the main:

(a) Producers of goods and services

(b) Consumers of goods and services

(c) Suppliers of factors of production

(d) Investors in the economy

---

354. The two-sector model assumes that all the income earned by households is either:

(a) Spent on consumption or saved

(b) Spent on consumption or invested

(c) Spent on imports or exports

(d) Spent on consumption or taxes

---

355. Investment in the two-sector model refers to:

(a) The purchase of financial assets by households

(b) The purchase of physical capital goods by businesses

(c) The government's spending on infrastructure projects

(d) The government's spending on social welfare programs

356. Savings in the two-sector model is equal to:

(a) Investment

(b) Consumption

(c) Income earned by households

(d) Government spending

357. The two-sector model assumes that there is no:

(a) Government intervention in the economy

(b) Unemployment or inflation

(c) Saving or investment in the economy

(d) International trade or foreign sector interaction

358. In the two-sector model, the equilibrium condition is achieved when:

(a) Savings are equal to consumption

(b) Investment is equal to consumption

(c) Investment is equal to savings

(d) Savings are equal to government spending

359. The investment multiplier is a concept used in economics to measure:

(a) The impact of changes in investment on the overall economy

(b) The efficiency of the financial sector in generating profits

(c) The effectiveness of government spending on economic growth

(d) The correlation between inflation and unemployment

360. The investment multiplier is calculated as the:

(a) Change in investment divided by the change in national income

(b) Change in national income divided by the change in investment

(c) Change in consumption divided by the change in investment

(d) Change in government spending divided by the change in investment

361. A higher investment multiplier implies that:

(a) Changes in investment have a larger impact on the overall economy

(b) Changes in investment have a smaller impact on the overall economy

(c) The economy is in a recessionary phase

(d) The economy is in an inflationary phase

362. The investment multiplier process works through:

(a) Changes in consumer spending due to changes in investment

(b) Changes in government spending due to changes in investment

(c) Changes in aggregate demand due to changes in investment

(d) Changes in aggregate supply due to changes in investment

363. The value of the investment multiplier is influenced by the:

(a) Level of government regulation in the economy

(b) Level of unemployment in the economy

(c) Marginal propensity to consume (MPC) and the marginal propensity to save (MPS)

(d) Exchange rate of the national currency

364. In an economy with a high investment multiplier, a decrease in investment can lead to:

(a) A significant decrease in national income and output

(b) An increase in consumer spending to compensate for the decrease in investment

(c) An increase in government spending to compensate for the decrease in investment

(d) No significant impact on the overall economy

365. The investment multiplier is a key concept in understanding the impact of:

(a) Fiscal policy on economic growth

(b) Monetary policy on interest rates

(c) Foreign trade on exchange rates

(d) Supply-side policies on unemployment

366. The investment multiplier is a theoretical concept that assumes:

(a) Investment has a fixed impact on the economy

(b) The economy is in a constant state of equilibrium

(c) There are no leakages in the circular flow of income

(d) All other factors in the economy remain constant

367. In a three-sector model of national income determination, the three main sectors are:

(a) Household, government, and foreign trade

(b) Household, business, and government

(c) Business, government, and foreign trade

(d) Household, financial, and foreign trade

368. The three-sector model expands the two-sector model by incorporating the role of:

(a) Government and imports only

(b) Government and exports only

(c) Government and both imports and exports

(d) Foreign trade and exports only

369. In the three-sector model, government spending includes:

(a) Imports and exports of goods and services

(b) Taxes and transfers to households

(c) Investments in physical capital by businesses

(d) Savings and financial investments

370. Equilibrium income in the three-sector model is achieved when:

(a) Aggregate demand is greater than aggregate supply

(b) Aggregate demand is less than aggregate supply

(c) Aggregate demand is equal to aggregate supply

(d) Aggregate demand is equal to consumption

371. The equilibrium condition in the three-sector model is represented as:

(a) Aggregate demand (AD) = Exports (X) + Government spending (G)

(b) Aggregate demand (AD) = Consumption (C) + Government spending (G) + Savings (S)

(c) Aggregate demand (AD) = Consumption (C) + Investment (I) + Government spending (G)

(d) Aggregate demand (AD) = Consumption (C) + Investment (I) + Government spending (G) - Imports (M)

372. In the three-sector model, leakage refers to:

(a) Money flowing into the economy due to exports

(b) Money flowing out of the economy due to imports

(c) Taxes and savings that reduce the flow of income

(d) Government spending that increases the flow of income

373. The injection in the three-sector model refers to:

(a) Money flowing out of the economy due to imports

(b) Money flowing into the economy due to exports

(c) Government spending and investments that increase the flow of income

(d) Savings and taxes that reduce the flow of income

374. In the three-sector model, if aggregate demand exceeds aggregate supply, it leads to:

(a) A surplus in the economy

(b) An increase in government borrowing

(c) Inflationary pressures in the economy

(d) A decrease in national income

375. In a four-sector model of national income determination, the four main sectors are:

(a) Household, government, business, and foreign trade

(b) Household, government, business, and financial

(c) Household, government, business, and exports

(d) Business, government, foreign trade, and financial

376. The four-sector model expands the three-sector model by incorporating the role of:

(a) Government and imports only

(b) Government and exports only

(c) Foreign trade and exports only

(d) Financial sector and imports only

377. In the four-sector model, net exports (NX) represent the difference between:

(a) Government spending (G) and taxes (T)

(b) Exports (X) and imports (M)

(c) Savings (S) and investments (I)

(d) Consumption (C) and investment (I)

378. Equilibrium income in the four-sector model is achieved when:

(a) Aggregate demand is greater than aggregate supply

(b) Aggregate demand is less than aggregate supply

(c) Aggregate demand is equal to aggregate supply

(d) Aggregate demand is equal to consumption

379. The equilibrium condition in the four-sector model is represented as:

(a) Aggregate demand (AD) = Consumption (C) + Government spending (G) + Savings (S)

(b) Aggregate demand (AD) = Consumption (C) + Investment (I) + Government spending (G) + Net exports (NX)

(c) Aggregate demand (AD) = Consumption (C) + Investment (I) + Government spending (G) - Net exports (NX)

(d) Aggregate demand (AD) = Consumption (C) + Investment (I) + Government spending (G) - Taxes (T)

380. In the four-sector model, the net exports (NX) are negative when:

(a) Imports exceed exports

(b) Exports exceed imports

(c) Government spending exceeds taxes

(d) Savings exceed investments

381. The leakage in the four-sector model refers to:

(a) Money flowing into the economy due to exports

(b) Money flowing out of the economy due to imports

(c) Taxes, savings, and imports that reduce the flow of income

(d) Government spending and investments that increase the flow of income

382. The injection in the four-sector model refers to:

(a) Money flowing out of the economy due to imports

(b) Money flowing into the economy due to exports

(c) Government spending, exports, and investments that increase the flow of income

(d) Taxes, savings, and imports that reduce the flow of income

383. The Keynesian theory emphasizes the role of ________ in influencing national income.

(a) Aggregate supply

(b) Government policies

(c) Foreign trade

(d) Business investments

384. According to the Keynesian theory, during periods of economic downturns, the government should use ________ to stimulate economic growth.

(a) Monetary policy

(b) Supply-side policies

(c) Fiscal policy

(d) Trade policies

385. The concept of "effective demand" in the Keynesian theory highlights the importance of:

(a) Government spending on infrastructure projects

(b) The total demand for goods and services in the economy

(c) The level of savings and investments in the economy

(d) The role of foreign trade in influencing national income

386. The Keynesian theory suggests that if there is insufficient aggregate demand in the economy, the government should:

(a) Reduce government spending and lower taxes

(b) Increase government spending and lower taxes

(c) Increase interest rates to encourage savings

(d) Decrease interest rates to promote borrowing and investment

387. In the Keynesian model, full employment equilibrium can only be achieved with:

(a) An increase in government regulations and control

(b) The proper functioning of the financial sector

(c) The active role of the government in managing aggregate demand

(d) A balanced budget and reduced government intervention

388. The Keynesian theory gained popularity during the:

(a) Great Depression of the 1930s

(b) Industrial Revolution of the 18th century

(c) Renaissance era in Europe

(d) Dot-com bubble of the late 1990s

389. Keynes argued that in the long run:

(a) Government intervention is unnecessary in the economy

(b) Supply creates its own demand

(c) The economy will automatically reach full employment

(d) The impact of government policies on aggregate demand diminishes

390. The Keynesian theory's focus on aggregate demand and government intervention has had a significant influence on the development of modern:

(a) Classical economics

(b) Monetarist economics

(c) Neoclassical economics

(d) Macroeconomics

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

a) A business enterprise which belongs to a citizen of India with production units solelysituated in India

b) The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status

c) A citizen household which had been living in India during the accounting year andone whose economic interests are solely in India

d) Households and bus iness enterprises composed of citizens of India alone living in India during the accounting year

---

392. Read the following statements and answer the following question.

Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production.

I. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.

(a) Only I is true

(b) Both I and II are true

(c) Only II is true

(d) Neither I nor II is true

---

393. Gross Domestic Product (GDP) of any nation

a) excludes capital consumption and intermediate consumption

b) is inclusive of capital consumption or depreciation

c) is inclusive of indirect taxes but excludes subsidies

d) None of the above

---

394. Read the following statements

I. 'Value added' refers to the difference between value of output and purchase ofintermediate goods.

II. 'Value added' represents the contribution of labour and capital to the production process.

(a) Statements I and II are incorrect

(b) Statements I and II are correct

(c) Statement I is correct and II is incorrect

(d) Statement II is correct and I is incorrect

---

395 .Non-economic activities are

a) those activities whose value is excluded from national income calculation as it will involve double counting

b) those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value

c) those which do not involve production of goods and services as they are meantto provide hobbies and leisure time activities

d) those which result in production for self consumption and therefore not included in national income calculation

---

396. 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

---

397. 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 eth current year

d) (a) and (b) above

398. Gross National Product at market prices GNP MP is

(a) GDP MP + Net Factor Income from Abroad

(b) GDP MP - Net Factor Income from Abroad

(c) GDP MP - Depreciation

(d) GDP MP + Net Indirect Taxes

---

399. 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 = National Income = FID (factor income earned in domestic territory) – NFIA.

c. Capital goods and inventory investment are excluded from computation of GDP

d. NDP**MP** = GDP**MP** + Depreciation

400.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)

---

401. 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

402. 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

---

403. 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

---

404. Mixed income of the self -employed means

(a) net profits received by self -employed people

(b) outside wages received by self-employed people

(c) combined factor payments which are not distinguishable,

(d) wages due to non- economic activities

---

405. Which of the following is added to national income while calculating personal income?

a. Transfer payments to individuals

b. Undistributed profits of corporate

c. Transfer payments made to foreigners

d. Mixed income of self employed

Answer

Que	Ans	Que	Ans	Que	Ans	Que	Ans	Que	Ans	Que	Ans
1	D	47	C	93	D	139	B	185	A	231	A
2	B	48	A	94	C	140	A	186	D	232	B
3	B	49	B	95	A	141	B	187	B	233	D
4	C	50	C	96	D	142	C	188	D	234	C
5	D	51	C	97	C	143	A	189	B	235	C
6	A	52	C	98	C	144	A	190	C	236	A
7	A	53	C	99	B	145	C	191	D	237	A
8	B	54	B	100	C	146	A	192	D	238	B
9	C	55	A	101	B	147	A	193	C	239	A
10	A	56	D	102	A	148	C	194	D	240	B
11	B	57	C	103	C	149	D	195	C	241	B
12	B	58	C	104	A	150	C	196	C	242	B
13	D	59	C	105	A	151	A	197	D	243	C
14	C	60	C	106	B	152	A	198	A	244	C
15	B	61	C	107	B	153	C	199	A	245	C
16	D	62	C	108	A	154	C	200	D	246	B
17	D	63	C	109	D	155	C	201	B	247	D
18	A	64	C	110	D	156	B	202	C	248	B
19	C	65	C	111	D	157	A	203	C	249	D
20	D	66	A	112	D	158	A	204	D	250	C
21	B	67	C	113	C	159	A	205	B	251	B
22	B	68	B	114	C	160	C	206	B	252	A
23	B	69	B	115	B	161	B	207	C	253	C
24	B	70	C	116	D	162	D	208	A	254	B
25	A	71	A	117	C	163	B	209	B	255	A
26	C	72	A	118	A	164	B	210	D	256	A
27	D	73	B	119	B	165	C	211	D	257	B
28	D	74	C	120	B	166	A	212	D	258	C
29	A	75	A	121	C	167	B	213	A	259	A
30	B	76	D	122	B	168	A	214	C	260	A
31	A	77	A	123	A	169	B	215	B	261	C
32	B	78	C	124	A	170	B	216	B	262	D
33	A	79	C	125	C	171	A	217	B	263	B
34	B	80	C	126	B	172	D	218	A	264	A
35	D	81	B	127	C	173	B	219	B	265	C
36	B	82	A	128	B	174	B	220	A	266	A
37	C	83	A	129	B	175	B	221	B	267	D
38	A	84	B	130	D	176	B	222	B	268	C
39	C	85	D	131	B	177	B	223	A	269	A
40	A	86	A	132	C	178	B	224	C	270	B
41	C	87	B	133	D	179	C	225	D	271	A
42	D	88	A	134	C	180	D	226	C	272	A
43	B	89	C	135	C	181	A	227	B	273	B
44	C	90	A	136	A	182	D	228	D	274	C
45	C	91	C	137		183	C	229	A	275	D
46	B	92	C	138	D	184	D	230	D	276	B

Que	Ans	Que	Ans	Que	Ans
277	C	323	D	369	B
278	D	324	C	370	C
279	C	325	C	371	C
280	A	326	A	372	C
281	C	327	B	373	C
282	B	328	A	374	C
283	B	329	C	375	A
284	C	330	A	376	A
285	A	331	A	377	B
286	D	332	A	378	C
287	C	333	C	379	B
288	C	334	A	380	A
289	A	335	B	381	C
290	C	336	A	382	C
291	C	337	A	383	B
292	B	338	A	384	C
293	B	339	C	385	B
294	B	340	C	386	B
295	B	341	C	387	C
296	A	342	C	388	A
297	B	343	C	389	D
298	C	344	B	390	D
299	D	345	B	391	B
300	A	346	B	392	B
301	C	347	D	393	B
302	D	348	C	394	B
303	C	349	B	395	B
304	C	350	A	396	D
305	A	351	B	397	D
306	B	352	A	398	A
307	C	353	B	399	A
308	C	354	A	400	B
309	D	355	B	401	D
310	D	356	A	402	D
311	D	357	D	403	C
312	A	358	C	404	A
313	B	359	A	405	
314	C	360	B		
315	D	361	A		
316	D	362	C		
317	C	363	C		
318	C	364	A		
319	B	365	A		
320	C	366	D		
321	A	367	B		
322	B	368	C		

.

CHAPTER 7
PUBLIC FINANCE
Unit:1 Fiscal Functions: An Overview, Centre and State Finance

Multiple Choice Questions

1. What does fiscal policy refer to?

(a) The government's policy on taxation and public expenditure.

(b) The policy of the central bank to control the money supply.

(c) The policy of promoting free trade and globalization.

(d) The policy of regulating foreign direct investment.

---

2. What is the primary objective of fiscal policy?

(a) Controlling inflation

(b) Achieving trade surplus

(c) Reducing income inequality

(d) Stabilizing financial markets

---

3. Which level of government is responsible for formulating and implementing fiscal policy in a federal system?

(a) Local government

(b) State government

(c) Central government

(d) Municipal government

---

4. What is the role of the state government in fiscal policy?

(a) Implementing monetary policy

(b) Controlling inflation

(c) Managing the country's foreign exchange reserves

(d) Implementing certain tax and expenditure policies within the state

---

5. Which of the following is an example of an expansionary fiscal policy?

(a) Increasing taxes to reduce inflation

(b) Reducing government spending to control budget deficit

(c) Increasing government spending and cutting taxes to stimulate economic growth

(d) Implementing austerity measures to address recession

---

6. Fiscal functions refer to:

(a) The functions performed by the central bank to control the money supply.

(b) The functions performed by the government related to taxation, expenditure, and borrowing.

(c) The functions performed by commercial banks to provide credit to the public.

(d) The functions performed by the stock exchange to regulate financial markets.

---

7. Fiscal policy is primarily concerned with:

(a) Controlling the money supply and interest rates in the economy.

(b) Regulating international trade and exchange rates.

(c) Achieving price stability and controlling inflation.

(d) Influencing the level of aggregate demand and economic activity.

---

8. The central government's main source of revenue is derived from:

(a) State taxes and fees.

(b) Central excise duties and customs duties.

(c) Corporate income taxes and personal income taxes.

(d) Borrowing from international financial institutions.

---

9. The division of financial powers and responsibilities between the central government and state governments is outlined in:

(a) The Fiscal Responsibility and Budget Management Act.

(b) The Reserve Bank of India Act.

(c)The Finance Commission's recommendations.

(d) The Securities and Exchange Board of India Act.

---

10. A budget deficit occurs when:

(a) Government revenues exceed government expenditures.

(b) Government expenditures exceed government revenues.

(c) Tax revenues are equal to government expenditures.

(d) The fiscal deficit is equal to the revenue deficit.

---

11. In a market economy, the primary role of the government is to:

(a) Own and control all the means of production.

(b) Set prices and allocate resources.

(c) Provide goods and services directly to consumers.

(d) Ensure the functioning of markets and enforce property rights.

---

12. In a planned economy, the government:

(a) Leaves all economic decisions to the private sector.

(b) Controls all aspects of the economy, including production, distribution, and pricing.

(c) Promotes international trade and exports.

(d) Focuses on providing public goods and services only.

---

13. The concept of "market failure" refers to:

(a) The government's inability to efficiently allocate resources.

(b) The inability of markets to achieve an equitable distribution of wealth.

(c) Situations where the market does not efficiently allocate resources to produce goods and services.

(d) The government's inability to provide public goods and services.

14. Fiscal policy is a tool used by the government to:

(a) Control the money supply and interest rates in the economy.

(b) Regulate international trade and exchange rates.

(c) Influence the level of economic activity and stabilize the economy through changes in government spending and taxation.

(d) Manage the balance of payments and foreign exchange reserves.

---

15. Which of the following is an example of a government providing a public good?

(a) A private company producing smartphones for sale in the market.

(b) A government-owned airline company operating international flights.

(c) A private university offering education services to students.

(d) A government building a public park for the community.

---

16. The primary function of the government in an economic system is to:

(a) Maximize profits for businesses.

(b) Ensure price stability in the market.

(c) Allocate and manage scarce resources.

(d) Promote international trade and exports.

---

17. In a market economy, the role of the government is mostly:

(a) To control all aspects of production and distribution.

(b) To centralize economic decision-making in the hands of a few authorities.

(c) To provide goods and services directly to the public.

(d) To intervene selectively to correct market failures and ensure fair competition.

---

18. Fiscal policy refers to the government's actions related to:

(a) Controlling the money supply and interest rates.

(b) Managing taxation and government spending.

(c) Regulating international trade and exchange rates.

(d) Setting employment targets and wage rates.

---

19. The concept of a "mixed economy" implies that:

(a) The government owns and controls all means of production and distribution.

(b) The economy is entirely market-driven without any government intervention.

(c) The economy combines elements of both a market economy and a planned economy.

(d) The government does not have any role in economic decision-making.

---

20. An example of a government's microeconomic role is:

(a) Implementing monetary policy to control inflation.

(b) Managing the country's balance of trade and current account.

(c) Regulating the labor market and setting minimum wages.

(d) Setting targets for economic growth and GDP expansion.

---

21. The allocation function in economics refers to:

(a) The government's role in distributing subsidies to various industries.

(b) The process of allocating resources among different uses to satisfy unlimited wants.

(c) The role of financial institutions in allocating credit to the public.

(d) The process of allocating goods and services among different regions of the country.

---

22. In a market economy, the allocation of resources is primarily determined by:

(a) Central planning by the government.

(b) Consumer preferences and demand.

(c) The availability of natural resources.

(d) The level of government spending.

---

23. Which economic system relies heavily on central planning and government control to allocate resources?

(a) Market economy

(b) Mixed economy

(c) Planned economy

(d) Command economy

---

24. The price mechanism in a market economy plays a crucial role in resource allocation because it:

(a) Determines the level of government spending on public goods.

(b) Regulates international trade and exchange rates.

(c) Adjusts supply and demand to reach equilibrium prices.

(d) Allocates resources based on government subsidies.

---

25. The concept of opportunity cost is related to the allocation function in economics because it:

(a) Represents the value of the next best alternative foregone when a choice is made.

(b) Determines the level of government spending on public goods.

(c) Indicates the monetary cost of production for a firm.

(d) Measures the overall cost of inflation in the economy.

---

26. The allocation function in an economic system refers to:

(a) How the government allocates its budget for different sectors.

(b) How resources are distributed among households and firms.

(c) How the central bank allocates credit to commercial banks.

(d) How foreign trade is regulated and controlled.

27. In a command economy, the allocation of resources is mainly decided by:

(a) Market forces and competitive forces.

(b) The interaction of buyers and sellers in the marketplace.

(c) Government authorities and central planners.

(d) The balance of trade and foreign exchange rates.

---

28. The concept of "opportunity cost" is related to:

(a) The cost of producing one additional unit of a good or service.

(b) The cost of investing in capital goods.

(c) The cost of producing a good or service at the lowest possible cost.

(d) The cost of choosing one option over the next best alternative.

---

29. Economic efficiency is achieved when:

(a) The government intervenes in resource allocation.

(b) Production is maximized, regardless of the distribution of goods.

(c) Resources are allocated to produce the highest quality goods.

(d) Resources are allocated to produce goods in a way that maximizes total welfare.

---

30. The redistribution function in an economic system refers to:

(a) The process of reallocating resources among different sectors of the economy.

(b) The role of the government in redistributing income and wealth among the population.

(c) The function of the central bank in regulating the money supply and interest rates.

(d) The process of reallocating resources between domestic and foreign markets.

---

31. Which of the following is an example of a redistributive policy?

(a) Providing subsidies to domestic industries to boost exports.

(b) Implementing tax cuts to stimulate economic growth.

(c) Introducing progressive income tax rates to tax higher incomes at a higher rate.

(d) Reducing government spending to control budget deficits.

---

32. The objective of the redistribution function is to:

(a) Maximize government revenue from taxation.

(b) Promote economic growth and increase GDP.

(c) Achieve a more equitable distribution of income and wealth.

(d) Encourage international trade and foreign investment.

---

33. Social welfare programs, such as unemployment benefits and food assistance, are examples of:

(a) Regressive policies that benefit higher-income individuals.

(b) Supply-side policies aimed at stimulating production.

(c) Redistributive policies that provide support to those in need.

(d) Demand-side policies that boost consumer spending.

---

34. A "means-tested" welfare program refers to a program that:

(a) Provides benefits to all individuals regardless of their income level.

(b) Is funded through progressive taxation.

(c) Targets benefits to individuals based on their income or financial need.

(d) Supports specific industries to boost economic growth.

---

35. The government's main tool for achieving redistribution is through:

(a) Fiscal policy, involving taxation and government spending.

(b) Monetary policy, involving controlling the money supply and interest rates.

(c) Exchange rate policies to promote international trade.

(d) Industrial policies to support specific industries.

---

36. Which of the following policies is an example of redistribution function?

(a) A government policy aimed at promoting economic growth and investment.

(b) A government policy to control inflation through monetary measures.

(c) A progressive income tax system where higher-income individuals pay higher tax rates.

(d) A policy to encourage exports and boost foreign trade.

---

37. The objective of the redistribution function is to:

(a) Maximize government revenue through taxation.

(b) Encourage individuals to save and invest more.

(c) Achieve price stability and control inflation.

(d) Reduce income and wealth disparities among different segments of society.

---

38. Universal basic income (UBI) is an example of:

(a) An anti-inflationary measure.

(b) A regressive tax policy.

(c) A redistribution policy

(d) A trade promotion policy.

---

39. The stabilization function in an economic system refers to:

(a) The government's role in stabilizing prices of essential goods and services.

(b) The process of stabilizing the stock market and financial markets.

(c) The government's efforts to stabilize the overall economy and counter economic fluctuations.

(d) The stabilization of exchange rates in international trade.

---

40. During periods of high inflation, the government's main focus in terms of stabilization function is usually on:

(a) Increasing government spending to boost aggregate demand.

(b) Implementing contractionary monetary policies to reduce money supply and control inflation.

(c) Reducing taxes to increase disposable income and boost consumer spending.

(d) Encouraging foreign trade to improve the trade balance.

---

41. In response to an economic recession, the government can use fiscal policy to stimulate the economy by:

(a) Decreasing government spending and increasing taxes.

(b) Decreasing taxes and increasing government spending.

(c) Increasing interest rates and reducing government spending.

(d) Decreasing interest rates and reducing government spending.

---

42. The primary goal of the stabilization function is to achieve:

(a) A balanced budget for the government.

(b) Maximum economic growth and expansion.

(c) Full employment and price stability.

(d) Increased international trade and exports.

---

43. Automatic stabilizers in the economy refer to:

(a) Government policies that automatically stabilize the stock market during downturns.

(b) Economic factors that automatically offset economic fluctuations without government intervention.

(c) Government agencies responsible for regulating prices and wages.

(d) The stabilization of foreign exchange rates in international trade.

44. During periods of economic recession, the government can use fiscal policy to:

(a) Increase taxes and reduce government spending to boost private investment.

(b) Increase government spending and reduce taxes to stimulate aggregate demand.

(c) Implement contractionary monetary policy to control inflation.

(d) Increase interest rates to encourage savings.

45. Inflation targeting is an example of:

(a) Fiscal policy to stabilize the economy.

(b) An exchange rate policy to control imports.

(c) A monetary policy to achieve price stability.

(d) Industrial policy to support the manufacturing sector.

46. Automatic stabilizers are government policies or programs that:

(a) Automatically increase government spending during economic downturns.

(b) Automatically reduce taxes during periods of economic growth.

(c) Require parliamentary approval for implementation.

(d) Are unrelated to economic conditions and fluctuations.

47. Which of the following best defines fiscal functions?

(a) The management of public debt

(b) The management of private debt

(c) The management of monetary policy

(d) The management of government finances

48. What is the primary source of revenue for the Central Government in India?

(a) State taxes

(b) Goods and Services Tax (GST)

(c) Corporate taxes

(d) Sales tax

49. Which of the following represents a capital receipt for the government?

(a) Income tax

(b) Goods and Services Tax (GST)

(c) Borrowings from the World Bank

(d) Customs duty

50. In India, who is responsible for the collection of most direct taxes?

(a) State Governments

(b) Local Governments (Panchayats)

(c) Central Board of Direct Taxes (CBDT)

(d) Reserve Bank of India (RBI)

51. Which type of budget shows the receipts and expenditures of both the Central and State Governments?

(a) Consolidated Budget (b) Annual Financial Statement

(c) Deficit Budget (d) Revenue Budget

52. In a market-oriented economic system, the primary role of the government is to:

(a) Own and operate key industries and businesses.

(b) Regulate and control prices of goods and services.

(c) Facilitate economic growth and stability while intervening minimally.

(d) Implement strict trade barriers and tariffs.

53. Which of the following is an example of a fiscal policy measure undertaken by the government during an economic downturn?

(a) Reducing interest rates to encourage borrowing and spending.

(b) Decreasing the money supply to control inflation.

(c) Implementing free trade agreements to promote international trade.

(d) Privatizing state-owned enterprises to boost competition.

54. The government's role in providing public goods and services refers to:

(a) The distribution of cash transfers to low-income individuals.

(b) The provision of essential goods and services for the entire population.

(c) The implementation of tax cuts to stimulate consumer spending.

(d) The establishment of monopolies in critical industries.

55. Which economic system involves extensive government planning and control over resources and production?

(a) Market economy

(b) Mixed economy

(c) Command economy

(d) Traditional economy

56. During times of inflation, the government might employ which monetary policy measure to reduce the money supply?

(a) Quantitative easing

(b) Open market operations

(c) Increasing government spending

(d) Lowering reserve requirements for banks

57. In a market-oriented economic system, the primary role of the government is to:

(a) Own and operate key industries and businesses.

(b) Regulate and control prices of goods and services.

(c) Facilitate economic growth and stability while intervening minimally.

(d) Implement strict trade barriers and tariffs.

58. Which of the following is an example of a fiscal policy measure undertaken by the government during an economic downturn?

(a) Reducing interest rates to encourage borrowing and spending.

(b) Decreasing the money supply to control inflation.

(c) Implementing free trade agreements to promote international trade.

(d) Privatizing state-owned enterprises to boost competition.

59. The government's role in providing public goods and services refers to:

(a) The distribution of cash transfers to low-income individuals.

(b) The provision of essential goods and services for the entire population.

(c) The implementation of tax cuts to stimulate consumer spending.

(d) The establishment of monopolies in critical industries.

60. Which economic system involves extensive government planning and control over resources and production?

(a) Market economy

(b) Mixed economy

(c) Command economy

(d) Traditional economy

61. During times of inflation, the government might employ which monetary policy measure to reduce the money supply?

(a) Quantitative easing

(b) Open market operations

(c) increasing government spending

(d) Lowering reserve requirements for banks

62. The redistribution function in economics refers to:

(a) The allocation of resources among different sectors of the economy

(b) The transfer of wealth or income from one group to another

(c) The process of increasing government spending on social welfare programs

(d) The implementation of progressive taxation to fund public goods

63. The primary goal of the redistribution function is to:

(a) Maximize profits for businesses

(b) Promote economic growth and development

(c) Reduce income inequality and poverty

(d) Encourage consumer spending and investment

---

64. Which of the following is an example of the redistribution function in action?

(a) A government investing in infrastructure development

(b) A government providing subsidies to farmers

(c) A progressive income tax system

(d) A central bank controlling the money supply

---

65. In a progressive income tax system:

(a) The tax rate decreases as income increases

(b) The tax rate remains constant regardless of income levels

(c) The tax rate increases as income increases

(d) There are no taxes imposed on personal income

---

66. The redistribution function aims to achieve:

(a) Economic efficiency and market equilibrium

(b) A balanced budget for the government

(c) An equitable distribution of wealth and income

(d) Increased consumer spending and investment

---

67. Social welfare programs, such as unemployment benefits and food assistance, are examples of:

(a) Progressive taxation

(b) Redistribution of income

(c) Government subsidies to businesses

(d) Expansionary fiscal policies

---

68. One of the challenges in implementing the redistribution function is:

(a) Balancing the budget and avoiding deficits

(b) Ensuring that all individuals have equal incomes

(c) Overreliance on government intervention in the economy

(d) Ensuring that the redistribution does not discourage work and productivity

---

69. The redistribution function is often a subject of debate due to:

(a) Its potential impact on economic growth and investment

(b) Its positive impact on reducing inflation and unemployment

(c) The ease of implementing progressive taxation

(d) Its association with increased government spending on public goods

---

70. The stabilization function in economics refers to:

(a) The government's role in redistributing wealth and income

(b) The process of controlling inflation and unemployment in the economy

(c) The allocation of resources among different sectors of the economy

(d) The promotion of international trade and exports

---

71. The primary goal of the stabilization function is to:

(a) Maximize profits for businesses

(b) Achieve long-term economic growth and development

(c) Maintain price stability and full employment

(d) Increase government revenue through taxation

---

72. Which of the following is an example of the stabilization function in action?

(a) The government implementing progressive taxation to reduce income inequality

(b) A central bank adjusting interest rates to control inflation

(c) A government investing in infrastructure development

(d) The implementation of tariffs to protect domestic industries

73. In the context of the stabilization function, "price stability" refers to:
(a) The constant level of prices for goods and services
(b) A situation where prices are increasing moderately over time
(c) The absence of inflation or deflation in the economy
(d) A situation where prices are determined by market forces without government Intervention

74. The stabilization function aims to achieve:

(a) A balanced budget for the government
(b) Full employment and stable economic growth
(c) An equitable distribution of wealth and income
(d) Increased consumer spending and investment

75. Monetary policy, such as changes in interest rates and open market operations, is an example of:

(a) Fiscal policy to stabilize the economy

(b) Redistribution of income to reduce poverty

(c) The stabilization function in action

(d) Supply-side policies to boost economic growth

76. One of the challenges in implementing the stabilization function is:
(a) Achieving a balance between inflation and unemployment
(b) Ensuring that all individuals have equal access to economic opportunities
(c) Overreliance on government intervention in the economy
(d) Managing fluctuations in the exchange rate

77. The stabilization function is often a subject of debate due to:
(a) Its potential impact on income distribution and wealth inequality
(b) The complexity of implementing monetary and fiscal policies
(c) The conflict between short-term stabilization goals and long-term economic growth
(d) The association with reduced government spending on public goods

CHAPTER 7 PUBLIC FINANCE Unit:2 Market Failure/Government Intervention to Correct Market Failure

78. Market failure occurs when:

(a) The government intervenes in the market to regulate prices.

(b) Demand for a product exceeds its supply in the market.

(c) The market fails to allocate resources efficiently.

(d) The government imposes taxes on goods and services.

79. Which of the following is an example of market failure?

(a) The production of a public good like street lighting.

(b) The availability of luxury goods in the market.

(c) The price increase of a product due to high demand.

(d) The availability of goods and services through competition.

80. Externalities refer to:

(a) The costs and benefits that affect only the producers in the market.

(b) The costs and benefits that affect both producers and consumers in the market.

(c) The costs and benefits that affect only the consumers in the market.

(d) The costs and benefits that have no impact on the market.

81. When a company pollutes the environment while producing goods, it is an example of:

(a) Positive externality.

(b) Negative externality.

(c) Public good.

(d) Market equilibrium.

---

82. Government intervention to correct market failure may involve:

(a) Reducing taxes to encourage investment.

(b) Providing subsidies to producers to lower costs.

(c) Imposing price controls to regulate market prices.

(d) Correcting externalities through taxes or subsidies

---

83. Which of the following is an example of a positive externality?

(a) Pollution from a factory affecting nearby residents' health negatively.

(b) A new technology leading to increased productivity in an industry.

(c) Overfishing in an unregulated fishery.

(d) A decrease in consumer spending affecting local businesses negatively.

---

84. Which of the following is a cause of market failure?

(a) Perfect competition in the market.

(b) Government intervention to correct externalities.

(c) Absence of public goods in the market.

(d) Equilibrium between supply and demand.

---

85. Externalities refer to:

(a) The costs and benefits faced by producers in the market.

(b) The positive impacts of government policies on the economy.

(c) The spillover effects of market transactions on third parties.

(d) The ability of consumers to make informed decisions.

---

86. When a company pollutes a nearby river, causing harm to the environment and nearby communities, it is an example of:

(a) Positive externality.

(b) Negative externality.

(c) Perfect competition.

(d) Government intervention.

---

87. How can the government address market failure due to externalities?

(a) By increasing taxes on the affected firms.

(b) By providing subsidies to the affected firms.

(c) By implementing regulations and standards.

(d) By reducing public goods in the market.

---

88. Market failure occurs when:

(a) The government intervenes excessively in the market.

(b) The market is unable to allocate resources efficiently.

(c) Producers dominate the market, leading to reduced competition.

(d) Consumer demand exceeds the available supply of goods.

---

89. Which of the following is a cause of market failure?

(a) Perfect competition in the market.

(b) Externalities and public goods.

(c) Government regulations promoting fair trade.

(d) Decrease in consumer demand.

---

90. In the presence of negative externalities, the market tends to produce:

(a) Less of the good than is socially optimal.

(b) More of the good than is socially optimal.

(c) The socially optimal level of the good.

(d) The good in the most efficient manner.

91. A public good is characterized by:

(a) Rivalry in consumption and excludability.

(b) Non-rivalry in consumption and excludability.

(c) Rivalry in consumption and non-excludability.

(d) Non-rivalry in consumption and non-excludability.

---

92. Which of the following is an example of a negative externality?

(a) A new technology leading to increased productivity in an industry.

(b) Pollution from a factory affecting nearby residents' health negatively.

(c) A decrease in consumer spending affecting local businesses negatively.

(d) Government subsidies encouraging the production of a specific good.

---

93. Which of the following is a reason for market failure?

(a) Perfect competition in the market.

(b) Government regulations promoting fair trade.

(c) Externalities and public goods.

(d) Increase in consumer demand

---

94. When a market is characterized by information asymmetry, it means that:

(a) Consumers have more information than producers.

(b) Producers have more information than consumers.

(c) Both consumers and producers have equal access to information.

(d) The market is perfectly efficient with no information gaps.

---

95. Public goods are non-excludable, which means:

(a) Individuals can be excluded from using them.

(b) They are available only to the public sector.

(c) They are available only to low-income individuals.

(d) Individuals cannot be excluded from using them.

---

96. Which of the following is a reason why markets fail?

(a) Perfect competition among firms.

(b) Absence of externalities.

(c) Adequate provision of public goods.

(d) Information asymmetry.

---

97. When external costs are not accounted for in the market price of a good, it leads to:

(a) Overproduction of the good.

(b) Underproduction of the good.

(c) Optimal production of the good.

(d) Equilibrium production of the good.

---

98. Which of the following is a market failure caused by incomplete information?

(a) Perfect competition.

(b) Monopoly power.

(c) Moral hazard in insurance markets.

(d) Efficient allocation of resources.

---

99. Public goods are typically underprovided in the market because:

(a) They are non-excludable.

(b) They are rivalrous in consumption.

(c) The government doesn't regulate their production.

(d) Private firms find them unprofitable.

---

100. Monopolies can lead to market failure because:

(a) They produce goods efficiently at lower prices.

(b) They have a larger market share.

(c) They restrict output and charge higher prices.

(d) They promote competition.

101. What is market power?

(a) The ability of a company to set prices arbitrarily high

(b) The ability of a company to influence market outcomes

(c) The ability of a company to manipulate consumer preferences

(d) The ability of a company to engage in predatory pricing

---

102. Which of the following is an example of a perfectly competitive market?

(a) The market for smartphones with several dominant companies

(b) The market for agricultural products with many small-scale farmers

(c) The market for luxury watches with a few high-end brands

(d) The market for electric vehicles with one leading manufacturer

---

103. A monopoly exists when:

(a) There is a single seller, and there are no close substitutes for the product.

(b) There are a few dominant sellers, and they collude to set prices.

(c) There are multiple sellers offering identical products.

(d) The government regulates the prices of goods in the market.

---

104. Which of the following is a characteristic of an oligopoly?

(a) Large number of sellers in the market

(b) Identical products offered by all firms

(c) Little to no barriers to entry for new firms

(d) Interdependence among the firms in the market

---

105. Which of the following strategies is typical of a monopolistic competition?

(a) High barriers to entry for new firms

(b) Identical products offered by all firms

(c) Heavy reliance on non-price competition

(d) Price-setting by a central authority

---

106. What is an externality?

(a) A situation where a company produces goods more efficiently than its competitors

(b) A cost or benefit that affects a party who did not choose to incur that cost or benefit

(c) A condition in which the price of a product exceeds its production cost

(d) An agreement between two firms to fix prices in the market

---

107. Which of the following is an example of a negative externality?

(a) A company providing free health check-ups to. its employees

(b) Planting trees in a neighborhood park

(c) A factory releasing pollutants into a nearby river

(d) Offering discounts on products to attract more customers

---

108. Which statement best describes a positive externality?

(a) An increase in the price of a good leads to a decrease in its demand.

(b) Subsidizing the production of solar panels to promote renewable energy.

(c) The consumption of cigarettes leading to adverse health effects for smokers.

(d) A decrease in consumer income leads to a decrease in the consumption of luxury goods.

---

109. What is the most effective way to internalize externalities?

(a) Government intervention through regulations and taxes

(b) Imposing price ceilings on goods and services

(c) Encouraging monopolies to dominate the market

(d) Allowing markets to reach equilibrium naturally

---

110. Which market structure is most likely to neglect externalities?

(a) Perfect competition

(b) Monopoly

(c) Oligopoly

(d) Monopolistic competition

111. Public goods are characterized by:

(a) Rivalry in consumption and excludability.

(b) Non-rivalry in consumption and excludability.

(c) Rivalry in consumption and non-excludability.

(d) Non-rivalry in consumption and non-excludability.

112. Which of the following statements is true about public goods?

(a) Public goods can be easily provided by private firms for a profit.

(b) The free-rider problem is not a concern for public goods.

(c) Public goods have a competitive market price.

(d) Public goods are typically provided by the government or public sector.

113. The free-rider problem associated with public goods refers to:

(a) Individuals who benefit from public goods but refuse to pay for them.

(b) The lack of competition among providers of public goods.

(c) The government's inability to regulate public goods effectively.

(d) The high costs of production associated with public goods.

114. Which of the following is an example of a public good?

(a) Private luxury goods like designer handbags.

(b) Cable television service.

(c) National defense and military protection.

(d) Exclusive membership at a country club.

115. The concept of "free-rider" in the context of public goods refers to:

(a) Individuals who benefit from public goods without contributing to their provision.

(b) Individuals who willingly pay for public goods.

(c) Public sector employees responsible for providing public goods.

(d) Non-profit organizations that supply public goods.

116. The free-rider problem refers to the situation where:

(a) The government provides goods and services without charging any taxes.

(b) Individuals benefit from a public good without contributing to its provision.

(c) Private companies offer goods for free to attract more customers.

(d) The supply of a public good exceeds its demand.

117. Which of the following is an example of a pure public good?

(a) Cable TV subscription with different channels.

(b) Toll road with limited access.

(c) National defense provided by the government.

(d) Private tutoring service for individual students.

118. Public goods face challenges in the free market because:

(a) Private firms can charge high prices for them.

(b) They are produced by the government.

(c) They are subject to demand and supply fluctuations.

(d) They may be underprovided due to the free-rider problem.

119. Incomplete information in a market refers to:

(a) The lack of government regulations in the market.

(b) The presence of externalities in the market.

(c) The absence of competition among firms in the market.

(d) Situations where one party in a transaction has more information than the other.

120. Moral hazard is an example of incomplete information in:

(a) Insurance markets.

(b) Perfectly competitive markets.

(c) Monopoly markets.

(d) Labor markets.

121. Adverse selection is a situation where:

(a) Buyers and sellers have equal knowledge about a product.

(b) High-quality goods dominate the market.

(c) Low-quality goods are more likely to be traded.

(d) The market is characterized by perfect competition.

122. How does incomplete information impact market outcomes?

(a) It leads to a more efficient allocation of resources.

(b) It results in higher prices for goods and services.

(c) It reduces transaction costs in the market.

(d) It may lead to market failure and suboptimal outcomes.

123. Solutions to the problem of incomplete information in markets may include:

(a) Eliminating government regulations.

(b) Encouraging monopolies to dominate the market.

(c) Enhancing transparency and disclosure of information.

(d) Reducing competition among firms.

124. Incomplete information in the market refers to a situation where:

(a) Consumers have perfect knowledge about the quality and price of goods.

(b) Sellers have perfect knowledge about consumer preferences.

(c) Market participants have unequal access to information.

(d) The government regulates the flow of information in the market.

125. Adverse selection in the insurance market refers to:

(a) Insurance companies charging high premiums for high-risk individuals.

(b) High-risk individuals selecting insurance policies with high deductibles.

(c) High-risk individuals being more likely to buy insurance.

(d) Insurance companies excluding high-risk individuals from coverage.

126. Moral hazard in the context of insurance refers to:

(a) Insurance companies increasing premiums for risky individuals.

(b) Policyholders taking less risk due to insurance coverage.

(c) Policyholders misrepresenting information to obtain lower premiums.

(d) Insurance companies denying coverage to high-risk individuals

127. Which of the following is an example of adverse selection in the used car market?

(a) Sellers providing detailed information about the car's condition.

(b) Buyers selecting cars based on their preferences.

(c) Sellers selling high-quality cars at premium prices.

(d) Buyers being unsure about the true condition of the car.

128. How can markets mitigate the problem of incomplete information?

(a) By increasing government regulation and control.

(b) By limiting the availability of information to all market participants.

(c) Through transparency and disclosure of relevant information.

(d) By reducing competition among market participants.

---

129. What does "asymmetric information" refer to in economics?

(a) A situation where buyers and sellers have the same level of information

(b) A situation where one party in a transaction has more information than the other

(c) A situation where prices are the same for all participants in the market

(d) A situation where there is no information available to make decisions

---

130. Which of the following is an example of asymmetric information in the used car market?

(a) All used cars having the same market price

(b) Buyers and sellers having access to the same car history reports

(c) A seller knowing the true condition of a used car, but the buyer does not

(d) Buyers and sellers negotiating the price of used cars in an open market

---

131. What is adverse selection in the context of asymmetric information?

(a) A situation where sellers selectively disclose information to buyers

(b) A situation where both parties have complete and accurate information

(c) A situation where higher-quality goods are driven out of the market

(d) A situation where the presence of hidden information leads to undesirable outcomes

---

132. How can insurance companies address the problem of adverse selection?

(a) By offering lower premiums to high-risk individuals

(b) By providing more information to policyholders

(c) By avoiding selling insurance to high-risk individuals

(d) By pooling the risks of diverse individuals through underwriting

---

133. Which concept refers to a situation where the presence of asymmetric information causes the deterioration of the quality of goods or services traded in the market?

(a) Moral hazard

(b) Market equilibrium

(c) Gresham's Law

(d) Lemons problem

---

134. What is asymmetric information?

(a) A situation where all parties involved in a transaction have equal access to information.

(b) A situation where one party in a transaction has more information than the other party.

(c) A situation where both parties in a transaction lack necessary information.

(d) A situation where the market information is not readily available to anyone.

---

135. In the context of the used car market, what is adverse selection?

(a) The tendency of sellers to hide information about the car's history.

(b) The tendency of buyers to pay more for high-quality used cars.

(c) The tendency of buyers to prefer new cars over used cars.

(d) The tendency of sellers to offer warranties on used cars.

---

136. Which of the following is an example of moral hazard?

(a) A person investing in a diversified portfolio to reduce risk.

(b) A person purchasing health insurance to cover medical expenses.

(c) A person taking more financial risks after purchasing comprehensive insurance.

(d) A person conducting market research to make an informed purchasing decision.

---

137. How does adverse selection impact the market for insurance?

(a) It leads to higher insurance premiums for everyone.

(b) It encourages insurance companies to offer more coverage options.

(c) It results in a decrease in demand for insurance products.

(d) It reduces the profitability of insurance companies.

---

138. Which of the following is a solution to the problem of adverse selection in insurance markets?

(a) Implementing price controls on insurance premiums

(b) Requiring individuals to purchase insurance

(c) Offering subsidies to insurance companies

(d) Pooling individuals with different risk levels

---

139. Market power refers to:

(a) The ability of the government to control market prices.

(b) The ability of a single firm to influence market prices and output.

(c) The government's ability to regulate market competition.

(d) The ability of consumers to make informed purchasing decisions.

---

140. Which of the following is a consequence of excessive market power?

(a) Increased competition and lower prices for consumers.

(b) Optimal allocation of resources in the market.

(c) Reduced consumer choices and higher prices.

(d) Elimination of government regulations.

141. Antitrust laws are designed to:

(a) Protect firms with dominant market positions from competition.

(b) Encourage collusion among competing firms.

(c) Promote mergers and acquisitions in the market.

(d) Prevent monopolistic practices and promote competition

---

142. A natural monopoly occurs when:

(a) A single firm dominates the market due to barriers to entry.

(b) There is perfect competition among multiple firms in the market.

(c) The government owns and operates all industries in the economy.

(d) Market power is evenly distributed among all firms in the industry.

---

143. Government intervention to minimize market power can include:

(a) Imposing price floors to protect producers.

(b) Providing subsidies to encourage higher production.

(c) Breaking up monopolies or regulating their behavior.

(d) Implementing import tariffs to promote domestic industries.

---

144. Market power refers to the ability of a firm or a group of firms to:

(a) Minimize production costs and maximize profits.

(b) Influence market prices and control the quantity of goods produced.

(c) Compete fairly in the market and offer high-quality products.

(d) Participate in international trade and expand their market share.

---

145. Which of the following is a potential consequence of excessive market power?

(a) Increased competition and lower prices for consumers.

(b) Higher quality products and improved customer service.

(c) Limited choices and higher prices for consumers.

(d) Increased innovation and technological advancements.

---

146. Government intervention to minimize market power can include:

(a) Providing subsidies to support monopolistic firms.

(b) Enforcing antitrust laws to promote competition.

(c) Imposing price controls to regulate the market.

(d) Discouraging new firms from entering the market.

---

147. A natural monopoly occurs when:

(a) There is only one firm in the market with significant market power.

(b) The government regulates the prices and operations of all firms.

(c) Multiple firms compete in the market without any dominance.

(d) Economies of scale make it more efficient for one firm to serve the entire market.

---

148. How can the government promote competition to minimize market power?

(a) By granting exclusive rights to firms for certain products.

(b) By providing subsidies to dominant firms to expand their production.

(c) By removing barriers to entry and encouraging new competitors.

(d) By imposing price floors to protect producers from low prices.

---

149. Externalities in the market refer to:

(a) The influence of government policies on market outcomes.

(b) The impact of international trade on domestic industries.

(c) The spillover effects of market activities on third parties.

(d) The fluctuations in market prices due to supply and demand.

---

150. A negative externality occurs when:

(a) The production of a good benefits third parties.

(b) The production of a good imposes costs on third parties.

(c) The government imposes taxes on goods and services.

(d) The market is in equilibrium without any distortions.

---

151. Which of the following is a government intervention to correct negative externalities?

(a) Subsidizing the production of goods with negative externalities.

(b) Imposing taxes on goods with negative externalities.

(c) Restricting the production of goods with positive externalities.

(d) Providing direct financial support to firms.

---

152. Positive externalities occur when:

(a) The production of a good benefits third parties.

(b) The production of a good imposes costs on third parties.

(c) The government intervenes in the market.

(d) There is overproduction of goods in the market.

---

153. Which of the following is a government intervention to correct positive externalities?

(a) Subsidizing the production of goods with positive externalities.

(b) Imposing taxes on goods with positive externalities.

(c) Imposing price ceilings on goods with positive externalities.

(d) Removing government regulations on production.

---

154. Negative externalities occur when:

(a) The production of a good leads to higher demand for other goods.

(b) The consumption of a good benefits other individuals in society.

(c) Economic activities impose costs on third parties.

(d) There is an oversupply of goods in the market.

155. Which of the following is a potential solution for correcting negative externalities?

(a) Providing subsidies to the firms generating negative externalities.

(b) Implementing price controls to regulate the market.

(c) Enforcing property rights and allowing lawsuits against polluters.

(d) Imposing higher taxes on consumers of the goods with negative externalities.

156. Positive externalities occur when:

(a) The production of a good leads to higher prices in the market.

(b) Economic activities benefit third parties without compensation.

(c) There is a surplus of goods in the market.

(d) There is an undersupply of goods in the market.

157. Which of the following is a government intervention to encourage positive externalities?

(a) Imposing taxes on the producers of goods with positive externalities.

(b) Providing subsidies to the producers of goods with positive externalities.

(c) Enforcing price ceilings to reduce prices of goods with positive externalities.

(d) Discouraging the consumption of goods with positive externalities.

158. Merit goods are goods that:

(a) Have high market demand and limited supply.

(b) Are provided by the government without any cost to consumers.

(c) Are considered to have positive externalities and are underprovided by the market.

(d) Are characterized by rivalry in consumption and excludability.

159. Which of the following is an example of a merit good?

(a) Fast food and soft drinks.

(b) Private luxury cars.

(c) Education and vaccinations.

(d) High-end fashion products.

160. Why might merit goods be underprovided by the market?

(a) Because they have low demand and high supply.

(b) Because they are often inferior in quality to other goods.

(c) Because producers find it unprofitable to supply them.

(d) Because consumers are not aware of their benefits.

161. How can the government intervene to ensure adequate provision of merit goods?

(a) By imposing price controls to keep prices low.

(b) By reducing taxes on the production of merit goods.

(c) By providing subsidies to producers of merit goods.

(d) By reducing government expenditure on other sectors

162. The purpose of government intervention in the case of merit goods is to:

(a) Increase consumer choices in the market.

(b) Maximize government revenue from taxes.

(c) Correct market failures and ensure social welfare.

(d) Encourage competition among producers.

163. Merit goods are goods that:

(a) Are produced by government-owned firms.

(b) Are provided by private firms but subsidized by the government.

(c) Have positive externalities and are underprovided in the free market.

(d) Have negative externalities and are overproduced in the free market.

164. Which of the following is an example of a merit good?

(a) Cigarettes and alcoholic beverages.

(b) Fast food and sugary beverages.

(c) Education and vaccinations.

(d) Luxury cars and high-end fashion.

165. Government intervention to promote merit goods can include:

(a) Imposing higher taxes on the consumption of merit goods.

(b) Subsidizing the production of merit goods.

(c) Implementing price controls to regulate the prices of merit goods.

(d) Promoting advertisements for luxury goods.

166. Why are merit goods often underprovided in the free market?

(a) Because they are produced by government-owned firms.

(b) Because private firms find them unprofitable to produce.

(c) Because consumers do not value their positive externalities.

(d) Because they are subject to price ceilings.

167. The government's intervention in the case of merit goods is primarily aimed at:

(a) Restricting the consumption of these goods.

(b) Ensuring equitable distribution of these goods.

(c) Encouraging the consumption of these goods.

(d) Eliminating the production of these goods .

168. Demerit goods are goods that:

(a) Have positive externalities and are underprovided in the free market.

(b) Have negative externalities and are overproduced in the free market.

(c) Are produced by government-owned firms.

(d) Are provided by private firms but subsidized by the government.

169. Which of the following is an example of a demerit good?

(a) Education and vaccinations.

(b) Fast food and sugary beverages.

(c) Renewable energy sources.

(d) Public transportation services.

170. Government intervention to discourage the consumption of demerit goods can include:

(a) Subsidizing the production of demerit goods.

(b) Implementing price controls to regulate the prices of demerit goods.

(c) Enforcing property rights for demerit goods.

(d) Imposing higher taxes on the consumption of demerit goods.

171. Why are demerit goods often overproduced in the free market?

(a) Because they are produced by government-owned firms.

(b) Because private firms find them profitable to produce.

(c) Because consumers fully consider their negative externalities.

(d) Because they are subject to price floors.

172. The government's intervention in the case of demerit goods is primarily aimed at:

(a) Restricting the consumption of these goods.

(b) Ensuring equitable distribution of these goods.

(c) Encouraging the consumption of these goods.

(d) Eliminating the production of these goods.

---

173. Public goods are characterized by:

(a) Excludability and rivalry in consumption.

(b) Non-excludability and rivalry in consumption.

(c) Excludability and non-rivalry in consumption.

(d) Non-excludability and non-rivalry in consumption.

---

174. Which of the following is a key challenge in the provision of public goods?

(a) Free-rider problem.

(b) Price fluctuations in the market.

(c) Excessive competition among producers.

(d) Lack of demand from consumers.

---

175. Government intervention in the provision of public goods can involve:

(a) Imposing high taxes on consumers who use public goods.

(b) Restricting access to public goods to a selected group of individuals.

(c) Privatizing the production and distribution of public goods.

(d) Financing the provision of public goods through taxes and government spending.

---

176. Which of the following is an example of a public good that is typically provided by the government?

(a) Movie tickets.

(b) Cable TV subscriptions.

(c) National defense.

(d) Smartphones.

---

177. The concept of "crowding out" refers to:

(a) The phenomenon where the demand for public goods exceeds the government's ability to provide them.

(b) Government spending on public goods leading to reduced private sector investment.

(c) The government's attempt to exclude certain individuals from accessing public goods.

(d) The competition between private firms in providing public goods.

---

178. Why are public goods often underprovided in the free market?

(a) Because they are produced by government-owned firms.

(b) Because private firms find them unprofitable to produce.

(c) Because consumers are fully aware of their positive externalities.

(d) Because they are subject to price ceilings.

---

179. Government intervention to provide public goods can include:

(a) Imposing taxes on consumers to fund their production.

(b) Subsidizing private firms to produce public goods.

(c) Implementing price controls to regulate the prices of public goods.

(d) Encouraging consumers to purchase public goods.

---

180. Which of the following is an example of a public good?

(a) Education provided by a private school.

(b) Cable TV subscription with different channels.

(c) National defense provided by the government.

(d) Exclusive access to a members-only online forum.

---

181. How can the government promote the provision of public goods?

(a) By granting exclusive rights to firms for certain public goods.

(b) By providing subsidies to private firms to limit public goods production.

(c) By increasing taxes on individuals to reduce public goods consumption.

(d) By directly funding the production of public goods.

182. Non-market pricing refers to:

(a) The setting of prices based on supply and demand in the market.

(b) The government's intervention to control prices in the market.

(c) The use of prices as a mechanism to allocate resources efficiently.

(d) The setting of prices by the government outside the regular market forces.

183. Which of the following is an example of non-market pricing?

(a) A competitive market where prices are determined by supply and demand.

(b) Government-controlled price ceilings on rent in certain areas.

(c) Pricing strategy based on product differentiation.

(d) Dynamic pricing used by online retailers.

184. What is the primary objective of non-market pricing by the government?

(a) To maximize profits for private firms.

(b) To encourage competition among producers.

(c) To ensure price stability and affordability for consumers.

(d) To eliminate the role of prices in the economy.

185. Price floors imposed by the government result in:

(a) Higher prices and excess supply in the market.

(b) Lower prices and excess demand in the market.

(c) Higher prices and shortage of goods in the market.

(d) Lower prices and increased competition among producers.

186. Non-market pricing is often used by the government to:

(a) Encourage competition and innovation among firms.

(b) Allow market forces to determine prices freely.

(c) Correct market failures and ensure equitable distribution.

(d) Eliminate the role of prices in resource allocation.

187. Non-market pricing is often used to address:

(a) Market failures and externalities.

(b) Competitive pricing in the market.

(c) Demand and supply fluctuations.

(d) Price discrimination by businesses.

188. What is the primary purpose of non-market pricing?

(a) To increase profits for businesses.

(b) To promote competition among firms.

(c) To allocate resources in the most efficient way.

(d) To reduce government control over the economy.

189. Non-market pricing may lead to:

(a) Greater market efficiency and consumer welfare.

(b) Lower production and decreased consumer choices.

(c) Increased competition among firms.

(d) Higher prices due to supply shortages

190. Information failure occurs when:

(a) The government intervenes in the market to regulate prices.

(b) Consumers have perfect knowledge about the quality and price of goods.

(c) Market participants have unequal access to information.

(d) There is an oversupply of goods in the market.

191. Which of the following is a potential consequence of information failure?

(a) Increased competition and lower prices for consumers.

(b) Higher quality products and improved customer service.

(c) Limited choices and higher prices for consumers.

(d) Increased innovation and technological advancements.

---

192. Government intervention to correct information failure can include:

(a) Imposing price controls to regulate the market.

(b) Limiting the availability of information to all market participants.

(c) Enforcing property rights and allowing lawsuits for misrepresentation.

(d) Providing subsidies to firms with more information.

---

193. How can the government promote transparency and reduce information failure?

(a) By granting exclusive rights to firms for certain products.

(b) By restricting the flow of information to protect businesses.

(c) By enforcing regulations that require firms to disclose relevant information.

(d) By reducing competition among market participants.

---

194. Why is correcting information failure important in a market economy?

(a) To limit government interference in the market.

(b) To protect businesses from competition.

(c) To ensure that markets function efficiently and fairly.

(d) To increase profits for firms.

---

195. Which of the following is an example of government intervention to correct information failure?

(a) Requiring businesses to disclose nutritional information on food labels.

(b) Allowing businesses to keep their product information confidential.

(c) Imposing price ceilings to control inflation.

(d) Allowing businesses to mislead consumers with false advertisements.

---

196. The primary goal of government intervention for correcting information failure is to:

(a) Control the prices of goods and services in the market.

(b) Limit competition and protect businesses.

(c) Ensure a level playing field for all market participants.

(d) Enhance transparency and empower consumers with information.

---

197. Which of the following is an example of information failure?

(a) Consumers conducting thorough research before making a purchase.

(b) Companies providing complete and transparent information about their products.

(c) Misleading advertising that exaggerates the benefits of 'a product.

(d) Consumers making well-informed decisions based on market prices.

---

198. The ultimate goal of government intervention to correct information failure is to:

(a) Increase government control over market activities.

(b) Regulate market prices to ensure fairness.

(c) Ensure that consumers have access to accurate and relevant information.

(d) Promote competition among businesses.

---

200. Which of the following is a potential consequence of inequitable distribution of resources?

(a) Increased competition and economic growth.

(b) Higher levels of poverty and social unrest.

(c) Greater incentives for innovation and entrepreneurship.

(d) Improved living standards for all individuals.

---

201. Government intervention for equitable distribution can include:

(a) Implementing price controls to regulate resource allocation.

(b) Promoting competition among firms to increase efficiency.

(c) Providing social welfare programs to support vulnerable populations.

(d) Limiting the availability of resources to maintain scarcity.

---

202. Which of the following is an example of government intervention for equitable distribution?

(a) Imposing higher taxes on high-income individuals.

(b) Deregulating industries tp. encourage competition.

(c) Allowing market forces to determine resource allocation.

(d) Implementing subsidies to support profitable businesses.

---

203. The main objective of government intervention for equitable distribution is to:

(a) Maximize profits for businesses.

(b) Ensure that everyone has equal wealth and income.

(c) Promote economic growth and development.

(d) Reduce economic inequalities and provide support to the needy.

---

204. Which of the following is a potential consequence of income inequality?

(a) Increased economic growth and development.

(b) Reduced poverty and improved living standards for all.

(c) Social unrest and a sense of injustice in society.

(d) Greater investment and entrepreneurship.

---

205. Government intervention for equitable distribution can include:

(a) Imposing taxes on high-income individuals and redistributing the funds.

(b) Implementing price controls to regulate market prices.

(c) Encouraging competition among businesses to reduce income disparities.

(d) Reducing government spending on social welfare programs.

---

206. Which of the following is an example of a government program aimed at equitable distribution?

(a) Providing subsidies to profitable businesses.

(b) Implementing a flat tax rate for all income levels.

(c) Offering financial assistance to low-income families.

(d) Reducing regulations on corporations.

---

207. The main objective of government intervention for equitable distribution is to:

(a) Maximize government revenue through taxation.

(b) Minimize government control over the economy.

(c) Ensure that everyone receives equal income and wealth.

(d) Reduce income and wealth disparities and promote social welfare.

---

208. Market failure occurs when:

(a) The government imposes excessive regulations on businesses

(b) The market is unable to allocate resources efficiently

(c) Consumers demand more goods and services than producers can supply

(d) There is perfect competition among firms in the market

209. The main cause of market failure is often attributed to:

(a) Excessive government intervention in the economy

(b) Monopoly power held by a single firm in the market

(c) Lack of consumer demand for certain goods and services

(d) Externalities and the absence of property rights

210. Externalities refer to:

(a) The benefits or costs of production that spill over to affect third parties

(b) The government's interference in the market

(c) The changes in demand and supply in the market

(d) The fluctuations in the stock market

211. Which of the following is an example of a positive externality?

(a) Pollution from a factory affecting the health of nearby residents

(b) Vaccination programs reducing the spread of infectious diseases

(c) Congestion and traffic jams in urban areas

(d) The depletion of natural resources due to overexploitation

212. Government intervention to correct market failure can include:

(a) Imposing trade barriers and tariffs on imports

(b) Reducing taxes to stimulate consumer spending

(c) Providing subsidies to inefficient firms in the market

(d) Imposing taxes or regulations to address externalities

213. Public goods are characterized by:

(a) Rivalry in consumption and exclusion of non-payers

(b) Rivalry in consumption and non-exclusion of non-payers

(c) Non-rivalry in consumption and exclusion of non-payers

(d) Non-rivalry in consumption and non-exclusion of non-payers

214. The free-rider problem refers to:

(a) Consumers demanding more goods than producers can supply

(b) Firms in the market charging excessively high prices for their products

(c) People benefiting from a public good without contributing to its provision

(d) Government intervention causing market inefficiencies

215. Government intervention to correct market failure aims to:

(a) Completely replace the market mechanism with central planning

(b) Eliminate all externalities and market distortions

(c) Improve market efficiency and promote economic welfare

(d) Privatize all public goods and services

216. Market failure occurs when:

(a) The government intervenes too much in the economy

(b) The market allocates resources efficiently

(c) The market fails to allocate resources efficiently

(d) There is perfect competition among firms in the market

217. The main cause of market failure is often attributed to:

(a) Perfect competition among firms in the market

(b) The absence of government regulations

(c) Externalities and market imperfections

(d) H1.2 The Concept of Market Failure

218. Externalities refer to:

(a) The government's role in the market

(b) The benefits or costs of production that spill over to affect third parties

(c) The changes in supply and demand in the market

(d) The fluctuations in stock prices

---

219. Which of the following is an example of a negative externality?

(a) A company providing scholarships to local students

(b) The construction of a new park in the neighborhood

(c) Pollution from a factory affecting nearby residents

(d) Government subsidies to support renewable energy

---

220. Public goods are characterized by:

(a) Rivalry in consumption and exclusion of non-payers

(b) Rivalry in consumption and non-exclusion of non-payers

(c) Non-rivalry in consumption and exclusion of non-payers

(d) Non-rivalry in consumption and non-exclusion of non-payers

---

221. The free-rider problem refers to:

(a) Consumers demanding more goods than producers can supply

(b) Firms in the market charging excessively high prices for their products

(c) People benefiting from a public good without contributing to its provision

(d) Government intervention causing market inefficiencies

---

222. Which of the following is an example of market failure?

(a) A competitive market with many buyers and sellers

(b) A perfectly efficient allocation of resources in a free market

(c) Overconsumption of natural resources leading to environmental degradation

(d) Government subsidies promoting the growth of a specific industry

---

223. Government intervention to correct market failure aims to:

(a) Eliminate all externalities and market distortions

(b) Replace the market mechanism with central planning

(c) Reduce competition and increase market power for firms

(d) Improve market efficiency and promote economic welfare

---

224. Market failure occurs when:

(a) The government intervenes too much in the economy

(b) The market allocates resources efficiently

(c) The market fails to allocate resources efficiently

(d) There is perfect competition among firms in the market

---

225. Which of the following is a reason why markets fail?

(a) Lack of consumer demand for goods and services

(b) Excessive government regulations in the market

(c) High levels of competition among firms

(d) Efficient allocation of resources by the market

---

226. Externalities refer to:

(a) The government's role in the market

(b) The benefits or costs of production that spill over to affect third parties

(c) The changes in supply and demand in the market

(d) The fluctuations in stock prices

---

227. Which of the following is an example of a negative externality?

(a) A company providing scholarships to local students

(b) The construction of a new park in the neighborhood

(c) Pollution from a factory affecting nearby residents

(d) Government subsidies to support renewable energy

---

228. Public goods are characterized by:

(a) Rivalry in consumption and exclusion of non-payers

(b) Rivalry in consumption and non-exclusion of non-payers

(c) Non-rivalry in consumption and exclusion of non-payers

(d) Non-rivalry in consumption and non-exclusion of non-payers

---

229. The free-rider problem refers to:

(a) Consumers demanding more goods than producers can supply

(b) Firms in the market charging excessively high prices for their products

(c) People benefiting from a public good without contributing to its provision

(d) Government intervention causing market inefficiencies

---

230. Which of the following is a reason for market failure?

(a) Well-defined property rights and contract enforcement

(b) Perfect information and transparency in the market

(c) Externalities and market imperfections

(d) Equal distribution of income among consumers

---

231. Government intervention to correct market failure aims to:

(a) Eliminate all externalities and market distortions

(b) Replace the market mechanism with central planning

(c) Reduce competition and increase market power for firms

(d) Improve market efficiency and promote economic welfare

---

232. Public goods are characterized by:

(a) Rivalry in consumption and exclusion of non-payers

(b) Rivalry in consumption and non-exclusion of non-payers

(c) Non-rivalry in consumption and exclusion of non-payers

(d) Non-rivalry in consumption and non-exclusion of non-payers

---

233. Which of the following is a characteristic of a public good?

(a) It is produced and provided by private companies

(b) It can only be consumed by one person at a time

(c) Consumers can be excluded from consuming the good

(d) Consumption by one person does not reduce its. availability to others

---

234. National defense is an example of a public good because[1]:

(a) It is provided by private firms in the market

(b) It is non-excludable, and consumption, and one person's does mot diminish its availability to others

(c) It is rivalrous in consumption, and one person's consumption reduces its availability to others

(d) It can be selectively' provided' to certain individual Is based on their willingness to pay

---

235. Which of the following statements is true regarding public goods?

(a) Private firms have a strong incentive to produce public goods due to high profits

(b) Public goods are usually provided! by fie government to ensure widespread access

(c) Public goods are always rivalrous in consumption;

(d) Public goods have well-defined property rights for exclusive use

236. One of the main challenges with public goods is the:

(a) High cost of production and provision

(b) Difficulty in excluding non-payers from consuming the good

(c) Lack of consumer demand for such goods

(d) Rivalry in consumption, leading to scarcity

237. Free-rider problem refers to the situation where:

(a) Consumers demand more goods than producers can supply

(b) Firms in the market charge excessively high prices for their products

(c) People benefit from a public good without contributing to its provision

(d) Government intervention causes market inefficiencies

238. Which of the following is NOT an example of a public good?

(a) Street lighting in a city

(b) National defense and military protection

(c) A private toll road with restricted access

(d) Air pollution control to benefit the entire community

239. The concept of public goods is relevant to:

(a) Only developed countries with strong governments

(b) Both developed and developing countries

(c) Only developing countries with limited resources

(d) Only countries with a large population

240. In economics, incomplete information refers to:

(a) Situations where consumers have perfect knowledge about the goods and services they purchase

(b) Situations where producers have perfect knowledge about the costs of production

(c) Situations where there is uncertainty or asymmetry of information between buyers and sellers

(d) Situations where government regulations provide complete information to all market participants

241. Asymmetric information occurs when:

(a) Buyers and sellers have equal knowledge about the quality of goods and services

(b) One party in a transaction has more information than the other

(c) Government agencies provide information to all market participants

(d) Market participants have perfect knowledge about market prices

242. Moral hazard refers to:

(a) The risk that one party in a transaction will take advantage of the other's lack of information

(b) The risk that market prices will change due to new information becoming available

(c) The risk that a party will deliberately take actions that increase the probability of a negative outcome

(d) The risk that one party will change the terms of a contract after it is agreed upon

243. Adverse selection occurs when:

(a) Buyers and sellers have equal knowledge about the quality of goods and services

(b) One party in a transaction has more information about the product's quality than the other

(c) The government provides complete information to all market participants

(d) Market participants have perfect knowledge about market prices

244. In the context of insurance markets, adverse selection refers to:

(a) The tendency for high-risk individuals to seek insurance coverage more than low-risk individuals

(b) The tendency for insurance companies to offer low premiums to attract more customers

(c) The presence of government regulations that ensure complete information for insurance buyers

(d) The equal access to insurance products for all individuals, regardless of their risk profile

---

245. Which of the following is an example of adverse selection in the used car market?

(a) A seller providing complete information about a car's history to potential buyers

(b) A buyer knowing more about a car's hidden defects than the seller

(c) A government agency regulating the prices of used cars

(d) All used cars being sold at the same price regardless of their condition

---

246. How can market participants mitigate the problem of incomplete information?

(a) By increasing government regulations and oversight

(b) By sharing more information with each other

(c) By avoiding any form of insurance contracts

(d) By refusing to engage in any transactions

---

247. The problem of adverse selection is most commonly observed in markets for:

(a) Luxury goods and services

(b) Essential commodities and basic necessities

(c) Used cars and insurance products

(d) Government-subsidized products

---

248. Market power refers to:

(a) The ability of the government to control market prices

(b) The dominance of a single firm or a group of firms in a market

(c) The efficiency of markets in allocating resources

(d) The absence of government regulations in the market

---

249. Why is market power a concern for policymakers?

(a) Market power leads to perfect competition and efficient markets

(b) Market power can lead to higher prices and reduced consumer choice

(c) Market power promotes innovation and technological advancements

(d) Market power ensures equitable distribution of wealth in society

---

250. Government intervention to minimize market power is aimed at:

(a) Promoting monopolistic practices for economic growth

(b) Encouraging firms to merge and create larger entities

(c) Increasing barriers to entry for new firms in the market

(d) Preventing anti-competitive behavior and promoting competition

---

251. Which of the following is an example of government intervention to minimize market power?

(a) Implementing price controls to regulate market prices

(b) Providing subsidies to dominant firms in the market

(c) Granting exclusive licenses to companies to operate in a specific industry

(d) Enforcing antitrust laws to prevent monopolistic practices

---

252. Antitrust laws are designed to:

(a) Facilitate mergers and acquisitions between large firms

(b) Restrict the entry of foreign companies in the domestic market

(c) Promote fair competition and prevent monopolistic practices

(d) Allow companies to engage in price-fixing agreements

253. A merger between two large companies in the same industry may raise concerns about:

(a) Increased competition in the market

(b) Lower prices and better consumer choice

(c) Potential abuse of market power and reduced competition

(d) A more efficient allocation of resources

---

254. How can the government promote competition and minimize market power?

(a) By providing subsidies and incentives to dominant firms

(b) By imposing price controls to limit price fluctuations

(c) By enforcing antitrust laws and regulating mergers and acquisitions

(d) By granting exclusive licenses to companies for specific industries

---

255. The primary goal of government intervention to minimize market power is to:

(a) Ensure maximum profits for dominant firms in the market

(b) Restrict consumer choice and options to prevent market inefficiencies

(c) Promote competition and protect consumers from unfair practices

(d) Stifle innovation and technological advancements in the market

---

256. Externalities refer to:

(a) The benefits or costs of production that spill over to affect third parties

(b) The government's intervention in the market to control prices

(c) The equal distribution of income and wealth in society

(d) The fluctuations in supply and demand in the market

---

257. Negative externalities occur when:

(a) The government imposes taxes to fund public goods

(b) The costs of production are borne by producers alone

(c) The benefits of production are enjoyed by consumers alone

(d) The costs of production are imposed on third parties not involved in the transaction

---

258. Which of the following is an example of a negative externality?

(a) A company providing scholarships to local students

(b) The construction of a new park in the neighborhood

(c) Pollution from a factory affecting nearby residents

(d) Government subsidies to support renewable energy

---

259. To correct negative externalities, the government can use:

(a) Subsidies to encourage more production of goods with negative externalities

(b) Taxes to discourage the production of goods with negative externalities

(c) Import tariffs to protect domestic industries

(d) Price controls to regulate the prices of goods with negative externalities

---

260. Positive externalities occur when:

(a) The government provides subsidies to firms to promote production

(b) The costs of production are imposed on third parties not involved in the transaction

(c) The benefits of production are enjoyed by producers alone

(d) The benefits of production spill over to benefit third parties not involved in the transaction

---

261. Which of the following is an example of a positive externality?

(a) A company selling a product at a higher price than its competitors

(b) A vaccination program reducing the spread of infectious diseases in a community

(c) A government imposing high tariffs on imported goods

(d) A company causing pollution that affects the health of nearby residents

262. To correct positive externalities, the government can use:

(a) Subsidies to discourage the production of goods with positive externalities

(b) Taxes to reduce consumption of goods with positive externalities

(c) Regulations to limit the benefits of production to certain individuals

(d) Subsidies to encourage the production of goods with positive externalities

263. The main goal of government intervention to correct externalities is to:

(a) Completely eliminate all externalities from the market

(b) Reduce the efficiency of market transactions

(c) Internalize external costs or benefits to achieve a more optimal outcome

(d) Limit the role of government in economic activities

264. Merit goods are characterized by:

(a) Being produced and provided by private companies only

(b) High prices and limited accessibility for all consumers

(c) Having positive externalities and being under-consumed in the market

(d) Being rivalrous in consumption and subject to market failures

265. Which of the following is an example of a merit good?

(a) Luxury cars with high price tags

(b) Fast food items with excessive sugar and fat content

(c) Public education and healthcare services

(d) Designer clothing and accessories

266. Merit goods are typically:

(a) Overprovided in the market due to high consumer demand

(b) Subject to competitive market forces and price fluctuations

(c) Underprovided in the market due to positive externalities

(d) Provided by private companies with no government involvement

267. To encourage the consumption of merit goods, the government can:

(a) Impose taxes to reduce consumption and limit negative externalities

(b) Provide subsidies to consumers to lower the prices of these goods

(c) Deregulate the market to allow for greater competition

(d) Implement price controls to keep the prices stable

268. The primary goal of government intervention in the case of merit goods is to:

(a) Limit consumer choice and promote government-controlled markets

(b) Increase the prices of these goods to generate more government revenue

(c) Ensure that consumers have access to these goods despite their positive externalities

(d) Eliminate the production of merit goods to reduce market inefficiencies

269. One of the challenges of government intervention in providing merit goods is:

(a) Overconsumption and excessive demand for these goods

(b) The difficulty in identifying which goods have positive externalities

(c) The lack of interest from private companies to produce merit goods

(d) The need to impose high taxes on consumers to fund the provision of these goods

270. In the case of merit goods, the government's role is to:

(a) Completely replace the private sector in providing these goods

(b) Let the market forces determine their prices and availability

(c) Encourage private companies to overproduce these goods for profit

(d) Correct market failures by ensuring adequate provision of these goods

---

271. Which of the following is a potential consequence of inadequate provision of merit goods in society?

(a) Increased consumption of harmful goods with negative externalities

(b) Lower government expenditures and reduced budget deficits

(c) Higher prices of merit goods due to excessive demand

(d) A more efficient allocation of resources in the market

---

272. Demerit goods are characterized by:

(a) Having positive externalities arid being under-consumed in the market

(b) High prices and limited accessibility for all consumers

(c) Having negative externalities and being over-consumed in the market

(d) Being rivalrous in consumption and subject to market failures

---

273. Which of the following is an example of a demerit good?

(a) Organic fruits and vegetables

(b) Cigarettes and tobacco products

(c) Public education and healthcare services

(d) Renewable energy sources

---

274. Demerit goods are typically:

(a) Overprovided in the market due to high consumer demand

(b) Subject to competitive market forces and price fluctuations

(c) Underprovided in the market due to negative externalities

(d) Provided by private companies with no government involvement

---

275. To discourage the consumption of demerit goods, the government can:

(a) Impose taxes to reduce consumption and internalize negative externalities

(b) Provide subsidies to consumers to lower the prices of these goods

(c) Deregulate the market to allow for greater competition

(d) Implement price controls to keep the prices stable

---

276. The primary goal of government intervention in the case of demerit goods is to:

(a) Limit consumer choice and promote government-controlled markets

(b) Increase the prices of these goods to generate more government revenue

(c) Reduce the consumption of these goods due to their negative externalities

(d) Encourage the production of demerit goods for profit

---

277. One of the challenges of government intervention in discouraging demerit goods is:

(a) Overconsumption and excessive demand for these goods

(b) The difficulty in identifying which goods have negative externalities

(c) The lack of interest from private companies to produce demerit goods

(d) The need to provide subsidies to consumers to increase consumption

---

278. In the case of demerit goods, the government's role is to:

(a) Completely replace the private sector in providing these goods

(b) Let the market forces determine their prices and availability

(c) Encourage private companies to overproduce these goods for profit

(d) Correct market failures by discouraging the consumption of these goods

279. Which of the following is a potential consequence of excessive consumption of demerit goods in society?

(a) Reduced government expenditures and increased budget surplus

(b) Higher healthcare costs and negative health outcomes

(c) Lower prices of demerit goods due to excessive demand

(d) Improved allocation of resources in the market

280. Public goods are characterized by:

(a) Rivalry in consumption and exclusion of non-payers

(b) Rivalry in consumption and non-exclusion of non-payers

(c) Non-rivalry in consumption and exclusion of non-payers

(d) Non-rivalry in consumption and non-exclusion of non-payers

281. Which of the following is an example of a public good?

(a) A private toll road with restricted access

(b) National defense and military protection

(c) A company providing exclusive memberships

(d) Pollution from a factory affecting nearby residents

282. Public goods are typically:

(a) Overprovided in the market due to high consumer demand

(b) Subject to competitive market forces and price fluctuations

(c) Underprovided in the market due to free-rider problem

(d) Provided by private companies with no government involvement

283. The free-rider problem refers to:

(a) Consumers demanding more goods than producers can supply

(b) Firms in the market charging excessively high prices for their products

(c) People benefiting from a public good without contributing to its provision

(d) Government intervention causing market inefficiencies

284. To ensure the provision of public goods, the government can:

(a) Impose taxes to fund the production of public goods

(b) Provide subsidies to private firms to produce public goods

(c) Deregulate the market to allow for greater competition

(d) Implement price controls to regulate the prices of public goods

285. Which of the following is NOT a characteristic of public goods?

(a) Non-rivalry in consumption

(b) Non-exclusion of non-payers

(c) Positive externalities associated with consumption

(d) Under-consumption in the market

286. The primary goal of government intervention in the case of public goods is to:

(a) Limit consumer choice and control the production of public goods

(b) Increase prices of public goods to generate more government revenue

(c) Ensure the provision of public goods despite free-rider problem

(d) Encourage private companies to produce public goods for profit

287. Which of the following is a potential consequence of under-provision of public goods in society?

(a) Excessive government spending and budget deficit

(b) Lower taxes and reduced government expenditure

(c) Lack of access to essential services and infrastructure

(d) Inefficient allocation of resources in the market

288. Non-market pricing refers to:

(a) The pricing mechanism determined by supply and demand forces in a market

(b) The setting of prices by the government or other authorities outside of the market forces

(c) The practice of firms colluding to fix prices in a competitive market

(d) The use of price controls to regulate market prices

289. Which of the following is an example of non-market pricing?

(a) A company setting its product price based on market demand and production costs

(b) The government capping the price of essential goods to control inflation

(c) A competitive market where prices are determined solely by supply and demand

(d) A company engaging in predatory pricing to drive competitors out of the market

290. Price controls are government interventions that:

(a) Allow firms to set prices freely to maximize profits

(b) Restrict the entry of new firms in the market to maintain price stability

(c) Fix maximum or minimum prices for certain goods and services

(d) Prohibit firms from engaging in price discrimination

291. Which of the following is an example of a price ceiling?

(a) The government sets a minimum price for agricultural products to support farmers

(b) A city government caps the rent that landlords can charge for residential properties

(c) A company raises its product price to increase profit margins

(d) The government allows free-market forces to determine the price of luxury goods

292. Price floors are designed to:

(a) Prevent price discrimination in the market

(b) Stabilize prices during periods of high inflation

(c) Encourage competition among firms to lower prices

(d) Set a minimum price for certain goods to support producers

293. The primary purpose of implementing non-market pricing measures like price controls is to:

(a) Allow firms to maximize profits by freely setting prices

(b) Achieve an equitable distribution of income and wealth in society

(c) Increase government revenue by taxing consumer purchases

(d) Eliminate all market inefficiencies and imperfections

294. One of the potential drawbacks of price controls is:

(a) The increased likelihood of price gouging by firms

(b) The potential for excessive competition and price wars

(c) The distortion of market signals and reduced incentives for producers

(d) The elimination of all price fluctuations in the market

295. Non-market pricing measures are often implemented when:

(a) The market is experiencing perfect competition and efficient price determination

(b) There is a need to correct externalities and market failures

(c) The government seeks to maximize profits for firms

(d) Consumers demand lower prices for goods and services

296. Information failure refers to:

(a) The inability of the government to regulate markets effectively

(b) The situation where the government has access to all relevant information

(c) The lack of information or asymmetric information in the market

(d) The government's interference in market pricing mechanisms

297. Asymmetric information occurs when:

(a) The government provides complete information to all market participants

(b) Market participants have equal knowledge about market prices

(c) One party in a transaction has more information than the other

(d) Buyers and sellers have equal knowledge about the quality of goods and services

298. Government intervention to correct information failure can involve:

(a) Imposing price controls to regulate market prices

(b) Providing subsidies to consumers to increase demand for goods

(c) Encouraging firms to engage in price discrimination

(d) Implementing regulations to ensure accurate and transparent information

299. Which of the following is an example of government intervention to correct information failure?

(a) The government setting a maximum price for a particular good

(b) The implementation of consumer protection laws to prevent deceptive advertising

(c) The government providing subsidies to a specific industry

(d) The enforcement of monopolistic practices by the government

300. The main goal of government intervention to correct information failure is to:

(a) Control market prices to ensure affordability for consumers

(b) Limit consumer choice and promote government-controlled markets

(c) Improve market transparency and protect consumers from fraud

(d) Increase government revenue by imposing higher taxes on businesses

301. How can government intervention help correct information failure in financial markets?

(a) By increasing taxes on financial transactions

(b) By imposing price controls on financial assets

(c) By requiring companies to disclose accurate financial information

(d) By limiting consumer access to financial products and services

302. One of the challenges of government intervention to correct information failure is:

(a) The lack of willingness from firms to provide accurate information

(b) The potential for excessive competition and price wars

(c) The difficulty in identifying goods with positive externalities

(d) The need to eliminate all market inefficiencies

303. Correcting information failure is essential to:

(a) Ensure market prices are always at their equilibrium level

(b) Encourage firms to engage in price discrimination

(c) Achieve a more efficient allocation of resources in the market

(d) Allow market forces to completely determine prices and quantities

304. Equitable distribution refers to:

(a) The equal distribution of income and wealth among all individuals in society

(b) The distribution of resources based on merit and individual effort
(c) The concentration of wealth and income in the hands of a few individuals
(d) The government's interference in market pricing mechanisms

---

305. Government intervention for equitable distribution can involve:

(a) Implementing price controls to regulate market prices

(b) Providing subsidies to high-income individuals to support their lifestyles

(c) Imposing progressive taxation to redistribute wealth from the rich to the poor

(d) Encouraging firms to engage in price discrimination

---

306. Which of the following is an example of government intervention for equitable distribution?

(a) The government imposing a flat tax rate on all income levels
(b) The implementation of consumer protection laws to ensure fair prices for goods
(c) The government providing subsidies to wealthy individuals for luxury goods
(d) The enforcement of monopolistic practices by the government

---

307. The main goal of government intervention for equitable distribution is to:
(a) Control market prices to ensure affordability for consumers
(b) Limit consumer choice and promote government-controlled markets
(c) Achieve a more equal distribution of income and wealth in society
(d) Increase government revenue by imposing higher taxes on businesses

---

308. How can progressive taxation help achieve a more equitable distribution of income?

(a) By taxing low-income individuals at a higher rate than high-income individuals
(b) By taxing high-income individuals at a higher rate than low-income individuals
(c) By imposing a flat tax rate on all income levels
(d) By eliminating taxes on all sources of income

309. One of the challenges of government intervention for equitable distribution is:
(a) The potential for excessive competition and price wars
(b) The lack of willingness from individuals to pay taxes for redistribution
(c) The difficulty in identifying goods with positive externalities
(d) The need to eliminate all market inefficiencies

---

310. In the context of equitable distribution, what is a means-tested benefit?

(a) A benefit that is provided to all individuals regardless of their income level
(b) A benefit that is provided based on specific criteria, such as income or assets
(c) A benefit that is only available to high-income individuals
(d) A benefit that is provided without any eligibility requirements

---

311. Correcting information failure is essential to:

(a) Ensure market prices are always at their equilibrium level

(b) Encourage firms to engage in price discrimination

(c) Achieve a more efficient allocation of resources in the market

(d) Allow market forces to completely determine prices and quantities

CHAPTER 7 PUBLIC FINANCE

Unit:3 The Process of Budget Making: Sources of Revenue, Expenditure Management and Management of Public Debt

312. What is the primary purpose of the government budget?

(a) To maximize government revenue through taxes.

(b) To allocate resources efficiently in the economy.

(c) To manage public debt and reduce fiscal deficits.

(d) To outline the government's financial plans and policies for the fiscal year.

313. Which of the following is considered a source of government revenue?

(a) Issuing bonds and borrowing from international lenders.

(b) Providing subsidies to low-income individuals.

(c) Investing in infrastructure development.

(d) Collecting taxes from individuals and businesses .

---

314. What is revenue expenditure in the government budget?

(a) Investment in long-term assets like infrastructure.

(b) Day-to-day expenses like salaries and subsidies.

(c) Transferring funds to other levels of government.

(d) Borrowing money from foreign countries.

---

315. How can the government manage public debt effectively?

(a) By reducing taxes to increase disposable income.

(b) By increasing government spending on social programs.

(c) By ensuring that debt remains sustainable with manageable interest payments.

(d) By borrowing more to fund large infrastructure projects.

---

316. Why is the government budget subject to public debate and scrutiny?

(a) To determine the profitability of government projects.

(b) To assess the performance of government employees.

(c) To evaluate the effectiveness of government policies.

(d) To promote competition among different government agencies

---

317. Which of the following is NOT a source of government revenue?

(a) Income tax

(b) Sales tax

(c) Government grants to businesses

(d) Corporate tax

---

318. What is the difference between capital expenditure and revenue expenditure?

(a) Capital expenditure relates to expenses on public infrastructure, while revenue expenditure relates to interest payments on public debt.

(b) Capital expenditure includes investments in long-term assets, while revenue expenditure includes day-to-day expenses like salaries and subsidies.

(c) Capital expenditure is funded through taxes, while revenue expenditure is funded through borrowing.

(d) Capital expenditure is decided by the central bank, while revenue expenditure is decided by the finance ministry.

---

319. Why is effective management of public debt important for the government?

(a) To maximize government profits.

(b) To reduce government spending.

(c) To ensure sustainable fiscal policy and debt repayment.

(d) To encourage private investment in the economy.

---

320. What is the ultimate goal of the budget-making process?

(a) To maximize government control over the economy.

(b) To minimize government interference in the market.

(c) To achieve economic growth and development.

(d) To promote fairness and social justice in resource distribution.

---

321. What is the first step in the process of budget making?

(a) Setting financial goals and objectives.

(b) Estimating government revenue for the fiscal year.

(c) Allocating funds to various ministries and departments.

(d) Presenting the budget to the public.

---

322. Which government agency is responsible for preparing the budget in most countries?

(a) The central bank.

(b) The finance ministry or treasury department.

(c) The department of taxation.

(d) The ministry of economic planning.

---

323. The fiscal year for most governments typically runs from:

(a) January 1st to December 31st.

(b) April 1st to March 31st.

(c) July 1st to June 30th.

(d) October 1st to September 30th.

---

324. During the budget making process, the estimation of government revenue includes:

(a) Only tax revenue and non-tax revenue.

(b) Tax revenue, non-tax revenue, and borrowing.

(c) Tax revenue, non-tax revenue, borrowing, and grants.

(d) Only borrowing and grants.

---

325. After the budget is prepared by the finance ministry, it is presented to:

(a) The president or prime minister.

(b) The central bank governor.

(c) The parliament or legislature.

(d) The ministry of economic planning.

---

326. The fiscal year in many countries typically runs from:

(a) January 1st to December 31st.

(b) April 1st to March 31st.

(c) July 1st to June 30th.

(d) October 1st to September 30th.

327. Which government official is responsible for presenting the budget to the parliament or legislature?

(a) The Prime Minister

(b) The Finance Minister

(c) The President

(d) The Governor of the Central Bank

---

328. The "Budget Speech" usually includes:

(a) A detailed breakdown of individual taxpayers' contributions.

(b) Economic statistics of the previous fiscal year.

(c) A list of government employees and their salaries.

(d) Policy recommendations from opposition parties.

---

329. After the budget is presented, it is usually sent to:

(a) The President for approval.

(b) The Supreme Court for review.

(c) The Central Bank for implementation.

(d) The Parliament or Legislature for approval and debate.

---

330. Which of the following is a direct source of government revenue?

(a) Sales tax

(b) Corporate tax

(c) Excise duty

(d) Value Added Tax (VAT)

---

331. What is the primary source of revenue for the government in many countries?

(a) Personal income tax

(b) Goods and Services Tax (GST)

(c) Customs duties

(d) Corporate tax

---

332. Revenue from non-tax sources may include:

(a) Income tax from individuals.

(b) Sales tax on goods.

(c) Dividends from state-owned enterprises.

(d) Corporate tax from private companies .

333. Which of the following is an indirect source of government revenue?

(a) Property tax

(b) Goods and Services Tax (GST)

(c) Personal income tax

(d) Corporate tax

334. Revenue from external sources may include:

(a) Income tax from individuals and corporations.

(b) Sales tax on goods and services.

(c) Foreign aid and grants from other countries.

(d) Dividends from state-owned enterprises.

335. Which of the following is a direct tax?

(a) Goods and Services Tax (GST)
(b) Corporate Tax
(c) Excise Duty
(d) Customs Duty

336. Which of the following is an indirect tax?

(a) Income Tax
(b) Wealth Tax
(c) Sales Tax

(d) Property Tax

337. Which of the following sources of revenue is considered non-tax revenue?

(a) Income Tax

(b) Customs Duty

(c) Dividends from state-owned enterprises

(d) Goods and Services Tax (GST)

338. Which of the following taxes is levied on the value added at each stage of production or distribution?

(a) Income Tax

(b) Goods and Services Tax (GST)

(c) Excise Duty

(d) Property Tax

339. Which of the following is an example of an external source of revenue for the government?

(a) Income Tax

(b) Corporate Tax

(c) Foreign Aid

(d) Sales Tax

340. What is the main objective of public expenditure management?

(a) To increase government revenue through taxation.

(b) To maximize government spending on welfare programs.

(c) To ensure efficient allocation of resources for public goods and services.

(d) To reduce government involvement in the economy.

341. Which of the following is an example of capital expenditure?

(a) Payment of salaries to government employees.

(b) Investment in building new schools and hospitals.

(c) Subsidies provided to low-income families.

(d) Interest payments on public debt.

342. What is the difference between revenue expenditure and capital expenditure?

(a) Revenue expenditure relates to investments in long-term assets, while capital expenditure includes day-to-day expenses.

(b) Revenue expenditure includes day-to-day expenses, while capital expenditure relates to interest payments on public debt.

(c) Revenue expenditure is funded through borrowing, while capital expenditure is funded through taxes.

(d) Revenue expenditure is incurred on regular operations, while capital expenditure is incurred on long-term assets.

343. Which of the following is an example of transfer payments?

(a) Investment in infrastructure development.

(b) Payment of salaries to government employees.

(c) Subsidies provided to farmers.

(d) Interest payments on public debt.

---

344. Why is effective public expenditure management important for the government?

(a) To reduce government revenue through taxation.

(b) To increase government control over the economy.

(c) To ensure that public funds are used efficiently and effectively.

(d) To minimize government spending on welfare programs.

---

345. What is public expenditure management?

(a) The process of managing private sector spending in the economy

(b) The process of allocating and controlling government spending

(c) The process of managing public debt and borrowing

(d) The process of managing foreign aid and grants

---

346. Which of the following is not a primary objective of public expenditure management?

(a) Promoting economic growth and development

(b) Ensuring price stability in the economy

(c) Reducing income inequality and poverty

(d) Maximizing government revenue through taxation

---

347. Fiscal policy is closely related to public expenditure management because:

(a) Fiscal policy determines the level of government spending

(b) Public expenditure management is a part of fiscal policy

(c) Both involve controlling the money supply in the economy

(d) Fiscal policy focuses on regulating private sector spending only

---

348. What is the role of budgeting in public expenditure management?

(a) Budgeting helps the government increase taxes for revenue generation

(b) Budgeting ensures that government spending aligns with its policy priorities

(c) Budgeting allows the government to control private sector investments

(d) Budgeting helps the government manage international trade relations

---

349. One of the challenges in public expenditure management is:

(a) The inability of the government to borrow from international financial institutions

(b) The difficulty in increasing government spending to stimulate economic growth

(c) The lack of transparency and accountability in budget execution

(d) The lack of demand for public goods and services in the economy

---

350. What is the role of the legislature in public expenditure management?

(a) The legislature sets monetary policy to control government spending

(b) The legislature approves the national budget and oversees government spending

(c) The legislature controls the prices of public goods and services

(d) The legislature regulates international trade and tariffs

---

351. In public expenditure management, "virement" refers to:

(a) The process of raising government revenue through taxes

(b) The process of reallocating funds between different budget items

(c) The process of managing foreign aid and grants

(d) The process of controlling inflation through monetary policy

352. What is the purpose of conducting performance evaluations in public expenditure management?

(a) To increase government spending on all sectors equally

(b) To determine the effectiveness and efficiency of government programs

(c) To limit public spending to only essential goods and services

(d) To ensure that all public expenditure is focused on defense and security

353. What is a budget?

(a) A financial statement showing the revenue and expenses of a company

(b) The total income of an individual or household

(c) A plan that outlines expected income and expenses over a specific period

(d) The total assets and liabilities of a government

354. Which of the following budgets is used by businesses to plan and control day-to-day operations?

(a) Operating budget

(b) Cash budget

(c) Capital budget

(d) Flexible budget

355. A cash budget is essential for managing:

(a) Long-term investments and capital projects

(b) Short-term cash flow and liquidity

(c) Marketing and advertising expenses

(d) Employee salaries and benefits

356. Which type of budget is most suitable for capital-intensive projects like building infrastructure?

(a) Operating budget

(b) Cash budget

(c) Capital budget

(d) Flexible budget

357. A flexible budget is useful for:

(a) Controlling day-to-day expenses in a business

(b) Allocating funds for specific capital projects

(c) Adapting to changes in sales or production levels

(d) Forecasting long-term revenue and expenses

358. What is a master budget?

(a) A budget prepared by individuals for personal financial planning

(b) The total budget of a government for all its departments and agencies

(c) The comprehensive budget that includes all individual budgets of a company

(d) A budget prepared by businesses for short-term cash management

359. Zero-based budgeting requires:

(a) Using the previous year's budget as a starting point for the new budget

(b) Justifying every budgeted expense as if starting from scratch

(c) Increasing the budget by a fixed percentage every year

(d) Allocating funds based on the popularity of different programs

360. Incremental budgeting involves:

(a) Reducing the budget by a fixed percentage every year

(b) Increasing the budget by a fixed percentage every year

(c) Allocating funds based on the popularity of different programs

(d) Using the previous year's budget as a starting point for the new budget

361. Capital receipts refer to:

(a) Money received from selling goods and services

(b) Revenue earned from taxes and fines

(c) Funds raised through long-term borrowing or the sale of assets

(d) Money received from grants and subsidies

---

362. Which of the following is an example of a capital receipt for a government?

(a) Income tax collected from individuals

(b) Revenue generated from selling government services

(c) Proceeds from selling government-owned land

(d) Grants received from other countries

---

363. Non-debt capital receipts include:

(a) Borrowings and loans from financial institutions

(b) Revenue generated from taxes and fines

(c) Grants received from other countries

(d) Interest received on government loans

---

364. Why are capital receipts essential for a government's financial planning?

(a) They help the government generate revenue from taxes

(b) They enable the government to finance day-to-day expenses

(c) They provide funds for development projects and infrastructure

(d) They ensure the government's financial stability during economic downturns

---

365. Which of the following represents a debt capital receipt for a government?

(a) Revenue earned from government services

(b) Proceeds from the sale of government assets

(c) Borrowing from the central bank

(d) Grants received from international organizations

366. How are capital receipts different from revenue receipts?

(a) Capital receipts are used to finance day-to-day expenses, while revenue receipts are used for long-term projects.

(b) Capital receipts represent funds raised through long-term borrowing or asset sales, while revenue receipts represent funds from regular income sources like taxes and fines.

(c) Capital receipts are non-tax revenue, while revenue receipts are tax revenue.

(d) Capital receipts are received from foreign countries, while revenue receipts are domestic receipts.

---

367. Government bonds and securities issued to the public represent:

(a) Capital expenditure

(b) Capital receipts

(c) Revenue expenditure

(d) Revenue receipts

---

368. How do capital receipts impact the fiscal deficit of a government?

(a) Capital receipts decrease the fiscal deficit

(b) Capital receipts have no impact on the fiscal deficit

(c) Capital receipts increase the fiscal deficit

(d) Capital receipts eliminate the fiscal deficit

---

369. Revenue receipts refer to:

(a) Funds raised through long-term borrowing or the sale of assets

(b) Money received from selling goods and services

(c) Revenue earned from taxes, fines, and other regular income sources

(d) Grants and aids received from other countries

---

370. Which of the following is an example of a revenue receipt for a government?

(a) Proceeds from selling government-owned land

(b) Borrowings from financial institutions

(c) Income tax collected from individuals and businesses

(d) Grants received from international organizations

371. Non-tax revenue receipts include:

(a) Income tax collected from individuals and businesses

(b) Borrowings from financial institutions

(c) Grants received from other countries

(d) Revenue generated from government services and fines

372. Why are revenue receipts essential for a government's financial planning?

(a) They provide funds for development projects and infrastructure

(b) They enable the government to finance long-term borrowing

(c) They ensure the government's financial stability during economic downturns

(d) They help the government generate revenue from asset sales

373. Which of the following represents a non-debt revenue receipt for a government?

(a) Proceeds from the sale of government assets

(b) Borrowing from the central bank

(c) Grants received from international organizations

(d) Revenue earned from government services

374. How are revenue receipts different from capital receipts?

(a) Revenue receipts are funds raised through long-term borrowing, while capital receipts represent regular income sources.

(b) Revenue receipts represent funds raised through long-term borrowing or asset sales, while capital receipts represent funds from regular income sources like taxes and fines.

(c) Revenue receipts are used to finance day-to-day expenses, while capital receipts are used for long-term projects.

(d) Revenue receipts are non-tax revenue, while capital receipts are tax revenue.

375. Government revenue earned from import duties and taxes on goods and services represents:

(a) Revenue expenditure

(b) Revenue receipts

(c) Capital expenditure

(d) Capital receipts

376. How do revenue receipts impact the fiscal deficit of a government?

(a) Revenue receipts decrease the fiscal deficit

(b) Revenue receipts have no impact on the fiscal deficit

(c) Revenue receipts increase the fiscal deficit

(d) Revenue receipts eliminate the fiscal deficit

377. Revenue expenditure refers to:

(a) Funds spent on long-term investments and capital projects

(b) Money spent on acquiring assets and properties

(c) Expenditure incurred on day-to-day government operations and services

(d) Expenditure on repaying long-term loans and debts

378. Which of the following is an example of revenue expenditure for a government?

(a) Purchase of land for a new government office building

(b) Payment of interest on a government loan

(c) Construction of a new highway infrastructure

(d) Investment in a state-owned enterprise

379. Revenue expenditure can be classified into:

(a) Capital and non-capital expenditure

(b) Debt and equity expenditure

(c) Foreign and domestic expenditure

(d) Social and defense expenditure

---

380. Why is revenue expenditure important for a government's financial planning?

(a) It provides funds for long-term investments and development projects

(b) It helps the government repay long-term loans and debts

(c) It ensures efficient delivery of public services and day-to-day operations

(d) It enables the government to increase tax revenue

---

381. Which of the following represents a non-capital revenue expenditure for a government?

(a) Investment in building a new government office

(b) Purchase of vehicles for government officials

(c) Payment of salaries to government employees

(d) Investment in a state-owned enterprise

---

382. How are revenue expenditure and capital expenditure different?

(a) Revenue expenditure is incurred on day-to-day operations, while capital expenditure is incurred on long-term investments and projects.

(b) Revenue expenditure is funded through long-term borrowing, while capital expenditure is funded through regular income sources.

(c) Revenue expenditure is related to asset acquisition, while capital expenditure is related to regular expenses.

(d) Revenue expenditure is non-tax revenue, while capital expenditure is tax revenue.

---

383. Government spending on social welfare programs and public education represents:

(a) Capital expenditure

(b) Capital receipts

(c) Revenue expenditure

(d) Revenue receipts

---

384. How does revenue expenditure impact the fiscal deficit of a government?

(a) Revenue expenditure decreases the fiscal deficit

(b) Revenue expenditure has no impact on the fiscal deficit

(c) Revenue expenditure increases the fiscal deficit

(d) Revenue expenditure eliminates the fiscal deficit

---

385. Capital expenditure refers to:

(a) Money spent on day-to-day government operations and services

(b) Expenditure incurred on long-term investments and capital projects

(c) Funds received from the sale of government assets

(d) Expenditure on repaying long-term loans and debts

---

386. Which of the following is an example of capital expenditure for a government?

(a) Payment of salaries to government employees

(b) Construction of a new government office building

(c) Purchase of office supplies and equipment

(d) Investment in a state-owned enterprise

---

387. Capital expenditure can be classified into:

(a) Capital and non-capital expenditure

(b) Debt and equity expenditure

(c) Foreign and domestic expenditure

(d) Social and defense expenditure

---

388. Why is capital expenditure important for a government's financial planning?

(a) It provides funds for long-term investments and development projects

(b) It helps the government repay long-term loans and debts

(c) It ensures efficient delivery of public services and day-to-day operations

(d) It enables the government to increase tax revenue

389. Which of the following represents a non-capital expenditure for a government?

(a) Investment in building a new government office

(b) Purchase of vehicles for government officials

(c) Payment of salaries to government employees

(d) Investment in a state-owned enterprise

390. How are capital expenditure and revenue expenditure different?

(a) Capital expenditure is incurred on long-term investments and projects, while revenue expenditure is incurred on day-to-day operations.

(b) Capital expenditure is funded through long-term borrowing, while revenue expenditure is funded through regular income sources.

(c) Capital expenditure is related to asset acquisition, while revenue expenditure is related to regular expenses.

(d) Capital expenditure is non-tax revenue, while revenue expenditure is tax revenue.

391. Government spending on defense and military equipment represents:

(a) Capital expenditure

(b) Capital receipts

(c) Revenue expenditure

(d) Revenue receipts

392. How does capital expenditure impact the fiscal deficit of a government?

(a) Capital expenditure decreases the fiscal deficit

(b) Capital expenditure has no impact on the fiscal deficit

(c) Capital expenditure increases the fiscal deficit

(d) Capital expenditure eliminates the fiscal deficit

393. What is budgetary deficit?

(a) The difference between total revenue and total expenditure of the government

(b) The difference between capital receipts and capital expenditure of the government

(c) The difference between revenue receipts and revenue expenditure of the government

(d) The difference between government savings and investments

394. Budgetary deficit occurs when:

(a) Total revenue is greater than total expenditure

(b) Capital receipts are greater than capital expenditure

(c) Total revenue is less than total expenditure

(d) Capital receipts are less than capital expenditure

395.Which of the following is a measure of the overall deficit of a country?

(a) Fiscal deficit

(b) Budgetary deficit

(c) Current account deficit

(d) Trade deficit

396. Budgetary deficit is also known as:

(a) Revenue deficit

(b) Trade deficit i

(c) Fiscal deficit

(d) Capital deficit

397. Fiscal deficit includes:

(a) Only revenue deficit

(b) Only capital deficit

(c) Both revenue deficit and capital deficit

(d) Neither revenue deficit nor capital deficit

398. How does a budgetary deficit impact the overall financial health of a government?

(a) A budgetary deficit indicates financial stability and fiscal responsibility

(b) A budgetary deficit leads to an increase in government savings

(c) A budgetary deficit indicates that the government is spending more than its revenue

(d) A budgetary deficit has no impact on the overall financial health of a government

---

399. The formula to calculate budgetary deficit is:

(a) Budgetary Deficit = Total Revenue - Total Expenditure

(b) Budgetary Deficit = Revenue Receipts - Revenue Expenditure

(c) Budgetary Deficit = Capital Receipts - Capital Expenditure

(d) Budgetary Deficit = Fiscal Receipts - Fiscal Expenditure

---

400. If a government has a budgetary surplus, it means:

(a) Total revenue is less than total expenditure

(b) Total revenue is equal to total expenditure

(c) Total revenue is greater than total expenditure

(d) Total revenue is negative

---

401. What is revenue deficit?

(a) The difference between total revenue and total expenditure of the government

(b) The difference between capital receipts and capital expenditure of the government

(c) The difference between revenue receipts and revenue expenditure of the government

(d) The difference between government savings and investments

---

402. Revenue deficit occurs when:

(a) Total revenue is greater than total expenditure

(b) Capital receipts are greater than capital expenditure

(c) Total revenue is less than total expenditure

(d) Capital receipts are less than capital expenditure

---

403. The revenue deficit implies that the government's regular income (revenue) is insufficient to meet its:

(a) Long-term investments

(b) Short-term loans

(c) Day-to-day expenses

(d) Foreign debt obligations

---

404. How is revenue deficit different from fiscal deficit?

(a) Revenue deficit considers only revenue receipts and expenditure, while fiscal deficit considers both revenue and capital receipts and expenditure.

(b) Revenue deficit is calculated annually, while fiscal deficit is calculated monthly.

(c) Revenue deficit is the same as fiscal deficit.

(d) Revenue deficit is a type of fiscal deficit .

---

405. How does revenue deficit impact a government's borrowing?

(a) A revenue deficit reduces the need for government borrowing.

(b) A revenue deficit may lead to increased government borrowing to finance expenses.

(c) A revenue deficit has no impact on government borrowing.

(d) A revenue deficit eliminates the need for government borrowing.

---

406. The formula to calculate revenue deficit is:

(a) Revenue Deficit = Total Revenue - Total Expenditure

(b) Revenue Deficit = Revenue Receipts - Revenue Expenditure

(c) Revenue Deficit = Capital Receipts - Capital Expenditure

(d) Revenue Deficit = Fiscal Receipts - Fiscal Expenditure

407. If a government has a revenue surplus, it means:

(a) Total revenue is less than total expenditure

(b) Total revenue is equal to total expenditure

(c) Total revenue is greater than total expenditure

(d) Total revenue is negative

408. The revenue deficit primarily arises due to:

(a) Capital investments in infrastructure projects

(b) Repayment of long-term loans and debts

(c) Day-to-day operational expenses and subsidies

(d) Foreign aid and grants received

409. What is fiscal deficit?

(a) The difference between total revenue and total expenditure of the government

(b) The difference between capital receipts and capital expenditure of the government

(c) The difference between revenue receipts and revenue expenditure of the government

(d) The difference between government savings and investments

410. Fiscal deficit occurs when:

(a) Total revenue is greater than total expenditure

(b) Capital receipts are greater than capital expenditure

411. The fiscal deficit primarily arises due to:

(a) Capital investments in infrastructure projects

(b) Repayment of long-term loans and debts

(c) Day-to-day operational expenses and subsidies

(d) Foreign aid and grants received

412. What is the primary deficit?

(a) The difference between total revenue and total expenditure of the government

(b) The difference between capital receipts and capital expenditure of the government

(c) The difference between revenue receipts and revenue expenditure of the government

(d) The difference between total revenue and total expenditure excluding interest payments on debt

413. The primary deficit takes into account which of the following items?

(a) Capital receipts and capital expenditure

(b) Revenue receipts and revenue expenditure

(c) Total revenue and total expenditure

(d) Interest payments on debt and government savings

414. How is the primary deficit different from the fiscal deficit?

(a) The primary deficit considers total revenue and total expenditure, while the fiscal deficit considers only revenue receipts and revenue expenditure.

(b) The primary deficit considers both revenue and capital receipts and expenditure, while the fiscal deficit considers only revenue receipts and revenue expenditure.

(c) The primary deficit is the same as the fiscal deficit.

(d) The primary deficit is a type of fiscal deficit.

415. Which of the following is true regarding the primary deficit?

(a) A primary deficit can only occur when total revenue is less than total expenditure.

(b) A primary deficit occurs when total revenue is greater than total expenditure.

(c) A primary deficit is unrelated to the government's borrowing.

(d) A primary deficit is always equal to the fiscal deficit.

416. The fiscal deficit implies that the government is spending more than its:

(a) Long-term investments

(b) Short-term loans

(c) Day-to-day expenses

(d) Foreign debt obligations

417. How is fiscal deficit different from revenue deficit?

(a) Fiscal deficit considers only revenue receipts and expenditure, while revenue deficit considers both revenue and capital receipts and expenditure.

(b) Fiscal deficit is calculated annually, while revenue deficit is calculated monthly.

(c) Fiscal deficit is the same as revenue deficit.

(d) Fiscal deficit is a type of revenue deficit.

418. How does fiscal deficit impact a government's borrowing?

(a) A fiscal deficit reduces the need for government borrowing.

(b) A fiscal deficit may lead to increased government borrowing to finance expenses.

(c) A fiscal deficit has no impact on government borrowing.

(d) A fiscal deficit eliminates the need for government borrowing.

419 . The formula to calculate fiscal deficit is:

(a) Fiscal Deficit = Total Revenue - Total Expenditure

(b) Fiscal Deficit = Revenue Receipts - Revenue Expenditure

(c) Fiscal Deficit = Capital Receipts - Capital Expenditure

(d) Fiscal Deficit = Revenue Receipts + Capital Receipts - Revenue Expenditure - Capital Expenditure

420. If a government has a fiscal surplus, it means:

(a) Total revenue is less than total expenditure

(b) Total revenue is equal to total expenditure

(c) Total revenue is greater than total expenditure

(d) Total revenue is negative

421. The formula to calculate the primary deficit is:

(a) Primary Deficit = Total Revenue - Total Expenditure

(b) Primary Deficit = Revenue Receipts - Revenue Expenditure

(c) Primary Deficit = Capital Receipts - Capital Expenditure

(d) Primary Deficit = Fiscal Deficit - Interest Payments on Debt

422. What does a primary deficit imply about a government's finances?

(a) The government is managing its expenses efficiently without reliance on borrowings.

(b) The government is spending more than its total revenue, including interest payments on debt.

(c) The government is generating enough revenue to cover all its expenses, including interest payments on debt.

(d) The government is not engaged in any borrowing activities.

423. If a government has a primary surplus, it means:

(a) Total revenue is less than total expenditure

(b) Total revenue is equal to total expenditure

(c) Total revenue is greater than total expenditure, including interest payments on debt

(d) Total revenue is negative

424. The primary deficit is considered a more appropriate measure of a government's fiscal health because it focuses on:

(a) Long-term investments and capital projects

(b) Day-to-day operational expenses and subsidies

(c) Interest payments on debt

(d) Both revenue and capital receipts and expenditure

425. What is the Finance Bill?

(a) A bill introduced in the parliament to allocate funds for various government projects

(b) A bill introduced by the Ministry of Finance to propose new tax laws and make amendments to existing ones

(c) A bill introduced to regulate the financial sector and banking activities

(d) A bill introduced to control government expenditure and reduce fiscal deficit

426. The Finance Bill is presented every year during the presentation of:

(a) The Economic Survey

(b) The Union Budget

(c) The Annual Financial Statement

(d) The Fiscal Policy Statement

427. Which of the following is NOT included in the Finance Bill?

(a) Proposals related to direct and indirect taxes

(b) Amendments to the rates of existing taxes

(c) Allocation of funds for various government projects and schemes

(d) Measures to promote economic growth and development

428. The Finance Bill becomes an Act after it is:

(a) Approved by the President of the country

(b) Passed by the Lok Sabha and Rajya Sabha and receives the President's assent

(c) Approved by the Ministry of Finance

(d) Passed by the State Assemblies and receives the Governor's approval

429. The provisions of the Finance Bill come into effect from:

(a) The date of its presentation in the parliament

(b) The beginning of the next financial year

(c) The date of approval by the Lok Sabha

(d) The date of approval by the Rajya Sabha.

430. Who introduces the Finance Bill in the parliament?

(a) The Prime Minister of the country

(b) The Finance Minister of the country

(c) The President of the country

(d) The Chief Justice of the Supreme Court

431. The Finance Bill is primarily concerned with which aspect of governance?

(a) Defense and security matters

(b) Social welfare and education programs

(c) Economic and financial matters

(d) Environmental protection and conservation

432. The Finance Bill is discussed and debated in which house of parliament?

(a) The Lok Sabha

(b) The Rajya Sabha

(c) Both the Lok Sabha and Rajya Sabha

(d) The State Assemblies

433. What is the Outcome Budget?

(a) A budget prepared by the Ministry of Finance to allocate funds for various government projects

(b) A budget presented in the parliament that includes proposals related to new taxes and financial matters

(c) A budget that focuses on the outcomes and results achieved by various government schemes and programs

(d) A budget that outlines the government's revenue and expenditure plans for the upcoming financial year

434. The Outcome Budget is presented every year by:

(a) The Ministry of Finance

(b) The Planning Commission

(c) The Ministry of Statistics and Program Implementation

(d) The Prime Minister of India

435. The Outcome Budget assesses the performance of government schemes based on:

(a) The total budget allocated to each scheme

(b) The number of government employees involved in the implementation of each scheme

(c) The outcomes and outputs achieved by each scheme

(d) The popularity of each scheme among the public

436. The primary focus of the Outcome Budget is to:

(a) Evaluate the financial health of the government

(b) Monitor the implementation progress of various government schemes

(c) Ensure compliance with fiscal responsibility and budget management rules

(d) Assess the impact and effectiveness of government policies and programs

437. The Outcome Budget is aimed at promoting:

(a) Fiscal discipline and reducing government expenditure

(b) Transparency and accountability in government spending

(c) Short-term goals and objectives of the government

(d) Public-private partnerships for effective governance

438. How does the Outcome Budget differ from the Regular Budget?

(a) The Regular Budget focuses on outcomes and results, while the Outcome Budget focuses on budget allocation.

(b) The Regular Budget includes new tax proposals, while the Outcome Budget includes fiscal deficit figures.

(c) The Regular Budget presents the government's revenue and expenditure plans, while the Outcome Budget assesses the impact of government schemes.

(d) The Regular Budget is presented by the Prime Minister, while the Outcome Budget is presented by the Finance Minister.

439. The Outcome Budget helps in identifying:

(a) The number of government employees in each department

(b) Areas of duplication in government schemes

(c) The popularity of government schemes among the public

(d) The total funds allocated to each government department

440. The Outcome Budget is presented along with which other budget document?

(a) The Regular Budget

(b) The Performance Budget

(c) The Zero-based Budget

(d) The Supplementary Budget

441. What is the Guillotine in the context of the parliamentary budget process?

(a) A device used for capital punishment in some countries

(b) A method to close debates and allocate time for discussions during the budget session

(c) A parliamentary committee responsible for reviewing the budget proposals

(d) A tool used by the finance minister to present the budget in the parliament

---

442. When is the Guillotine typically used in the parliament?

(a) During discussions on non-financial bills

(b) To extend the budget session beyond its scheduled time

(c) To end discussions on budget proposals and related bills

(d) To allow unlimited time for debates on budget matters

---

443. How does the Guillotine help in the efficient passage of the budget?

(a) It allows for unlimited time for debates on each budget proposal.

(b) It ensures that all non-financial bills are discussed thoroughly.

(c) It allows the finance minister to present the budget efficiently.

(d) It sets a deadline for discussions, thereby streamlining the process.

---

444. Who decides the allocation of time for discussions using the Guillotine?

(a) The Speaker of the Lok Sabha

(b) The Prime Minister

(c) The Finance Minister

(d) The President of India

---

445. What happens when the Guillotine is applied during the budget session?

(a) All budget proposals are automatically approved without any discussions.

(b) Remaining discussions on budget proposals are cut short, and votes are taken collectively.

(c) The budget session is extended to allow for more time for discussions.

(d) The finance minister presents the budget to the President for approval.

446. Which house of parliament uses the Guillotine during the budget session?

(a) Lok Sabha

(b) Rajya Sabha

(c) Both Lok Sabha and Rajya Sabha

(d) State Legislative Assemblies

---

447. How does the Guillotine impact the participation of members in budget discussions?

(a) It encourages active participation and thorough discussions on each proposal.

(b) It limits the participation of members and curtails the time for discussions.

(c) It allows members to extend the budget session for more detailed debates.

(d) It has no impact on the participation of members in budget discussions.

---

448. What are Cut Motions in the context of parliamentary procedures?

(a) Motions to cut short the duration of parliamentary sessions

(b) Motions to reduce the salaries of government officials

(c) Motions to reduce the amount of a demand for grant presented in the budget

(d) Motions to cut off funding for a specific government project

---

449. When are Cut Motions moved in the parliament?

(a) During discussions on non-financial bills

(b) Before the presentation of the budget

(c) During discussions on financial matters and demands for grants

(d) After the passage of the budget

---

450. What is the purpose of a Cut Motion?

(a) To propose a reduction in the total budget allocation fb) To criticize the functioning of the opposition parties

(c) To express disapproval of a specific policy or expenditure

(d) To delay the passage of the budget

451. Which of the following statements is true about Cut Motions?

(a) Cut Motions are moved after the budget is passed.

(b) Cut Motions can only be moved by the ruling party MPs.

(c) Cut Motions are meant to propose an increase in budget allocations.

(d) Cut Motions can be moved by any MP to seek a reduction in budget allocations.

452. How many types of Cut Motions are typically allowed in the parliament?

(a) One type

(b) Two types

(c) Three types

(d) Four types

453. Which type of Cut Motion aims at reducing the amount of a demand for grant to Re. 1 ?

(a) Policy Cut

(b) Economy Cut

(c) Token Cut

(d) Fiscal Cut

454. What is the consequence if a Cut Motion is accepted by the Speaker of the house?

(a) The demand for grant is withdrawn from the budget.

(b) The budget is rejected and needs to be presented again.

(c) The amount of the demand for grant is reduced as proposed in the motion.

(d) The budget is passed without any changes.

455. What is the purpose of allowing Cut Motions in the parliament?

(a) To delay the passage of the budget and stall government activities

(b) To give MPs an opportunity to express their grievances and concerns

(c) To increase the power of the opposition parties

(d) To provide additional time for parliamentary debates

456. What is the Consolidated Fund of India?

(a) A fund managed by the Reserve Bank of India for foreign exchange transactions

(b) A fund maintained by the government to finance development projects

(c) A fund that holds all revenues received and loans raised by the government

(d) A fund created to support the defense and security expenses of the country

457. Which article of the Indian Constitution deals with the Consolidated Fund of India?

(a) Article 110

(b) Article 280

(c) Article 266

(d) Article 360

458. All government revenues and receipts are credited to which fund?

(a) Public Account

(b) Contingency Fund

(c) Consolidated Fund of India

(d) Development Fund

459. The expenditure charged on the Consolidated Fund of India includes:

(a) Expenditure on foreign aid and grants

(b) Expenditure on salaries and allowances of the President and Governors

(c) Expenditure on defense and security

(d) Expenditure on welfare and social programs

460. How is the money from the Consolidated Fund of India withdrawn?

(a) By the President's order

(b) By the Governor's order

(c) By the Finance Minister's order

(d) Only through parliamentary approval

461. Which fund is audited by the Comptroller and Auditor General (CAG) of India?

(a) Public Account

(b) Contingency Fund

(c) Consolidated Fund of India

(d) Development Fund

462. If there is a need for additional funds during an emergency, from which fund can the government draw money?

(a) Public Account

(b) Contingency Fund

(c) Consolidated Fund of India

(d) Development Fund

463. Which of the following statements about the Consolidated Fund of India is correct?

(a) The President has complete control over the withdrawals from this fund.

(b) All government revenues are credited to this fund, but no expenditure is charged on it.

(c) The fund is maintained by the Reserve Bank of India.

(d) The fund is utilized for all government expenditure, except the expenditure charged on the Contingency Fund

464. What is the Contingency Fund of India?

(a) A fund managed by the Reserve Bank of India for foreign exchange transactions

(b) A fund maintained by the government to finance development projects

(c) A fund that holds all revenues received and loans raised by the government

(d) A fund created to meet urgent and unforeseen expenditure of the government

465. Which article of the Indian Constitution deals with the Contingency Fund of India?

(a) Article 110

(b) Article 266

(c) Article 360

(d) Article 280

466. How is the Contingency Fund of India financed?

(a) By the President from personal funds

(b) By voluntary contributions from the public

(c) By budgetary allocations from the Consolidated Fund of India

(d) By external borrowings from international agencies

467. What is the maximum amount that can be kept in the Contingency Fund of India?

(a) ₹ 10,000 crore

(b) ₹ 30,000 crore

(c) ₹ 50,000 crore

(d) There is no specified maximum limit.

468. Who has the authority to make withdrawals from the Contingency Fund of India?

(a) The President of India

(b) The Prime Minister of India

(c) The Finance Minister of India

(d) The Reserve Bank of India

469. How are withdrawals from the Contingency Fund of India made?

(a) By the President's order

(b) By the Prime Minister's order

(c) By the Finance Minister's order

(d) By the Reserve Bank of India's approval

470. What happens if the amount in the Contingency Fund of India is insufficient to meet the expenditure?

(a) The government can draw additional funds from the Consolidated Fund of India.

(b) The government can borrow from international financial institutions.

(c) The expenditure remains pending until the parliament approves additional funds.

(d) The President can use personal funds to cover the shortfall.

---

471. The Contingency Fund of India is audited by:

(a) The President of India

(b) The Comptroller and Auditor General (CAG) of India

(c) The Finance Minister of India

(d) The Reserve Bank of India

---

472. What is the Public Account of India?

(a) A fund managed by the Reserve Bank of India for foreign exchange transactions

(b) A fund maintained by the government to finance development projects

---

473. 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

---

474. Macroeconomic stabilization may be achieved through
(a) Free market economy
(b) Fiscal policy
(c) Monetary policy
(d) (b) and (c) above

---

475. 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

---

476. 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.

---

477. 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

---

478. 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

---

479. 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

480. 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

481. 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

482. 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

483. 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

484. Which of the following is true in respect of the role of Finance Commissions in India?
I. The distribution between the union and the states of the net proceeds of taxes
II. Allocation between the states of the respective shares of such proceeds.
III. Make Recommendations on integrated GST on inter-state movement of goods and services
IV. 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

485. 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

486. 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

487. 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

488. 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

489. 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

490. 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

491. 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

492. 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

493. '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

494. 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

495. 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

496. 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

497. 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

498. 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

499. 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

500. 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

501. 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

502. Smoking in public is a case of

(a) Negative consumption externality

(b) Negative production externality

(c) Internalising externality

(d) None of the above

503. Read the following statements

I The market-based approaches to control externalities operate through price mechanism

II. When externalities are present, the welfare loss would be eliminated

III. The key is to internalizing an externality is to ensure that those who create the externalities include them while making decisions Of the above statements

(a) II and III are correct

(b) I only is correct

(c) II only is correct

(d) I and III are correct

504. 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

505. 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

506. 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

507. 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

508. 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

509. Rules regarding product labelling

(a) Seeks to correct market failure due to externalities

(b) Is a method of solving the problem of public good

(c) May help solve market failure due to information failure

(d) Reduce the problem of monopolies in the product market

510. Identify the incorrect statement

(a) A minimum support price for agricultural goods is a market intervention method to guarantee steady and assured incomes to farmers.

(b) An externality is internalised if the ones that generated the externality incorporate them into their private cost-benefit analysis

(c) The production and consumption of demerit goods are likely to be less than optimal under free markets

(d) Compared to pollution taxes, the cap and trade method is administratively cheap and simple to implement and ensures that pollution is minimised in the most cost-effective way.

511. The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual

(a) Is a case of negative externality

(b) Is a case of market efficiency

(c)Is a case of free riding

(d)Is inappropriate and warrant action

512. A government subsidy

(a) is a market-based policy

(b) involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities

(c) is generally provided for merit goods

(d) all the above

513. The production and consumption of demerit goods are

(a) likely to be more than optimal under free markets.

(b) likely to be less than optimal under free markets

(c) likely to be subjected to price intervention by government

(d) a) and c) above

514. The argument for education subsidy is based on

(a) Education is costly

(b) the ground that education is merit good

(c) education creates positive externalities

(d) b) and c) above

515. Read the following statements

I. Social costs are the total costs incurred by the society when a good is consumed or produced.

II The external costs are not included in firms' income statements or consumers' decisions

III. Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs

IV. Production and consumption decisions are efficient only when private costs are Considered Of the above

(a) Statements I and III are correct

(b) Statements I,II and III are correct

(c) Statement I only is correct

(d) All the above are correct

516. Government failure occurs when

(a) Government fails to implement its election promises on policies

(b) A government is unable to get re-elected

(c) Government intervention is ineffective and produces fresh and more serious problems

(d) None of the above.

517.The difference between the budget deficit of a government and its debt service paymentsis

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

The following hypothetical figures relate t country A

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

.

518. The revenue deficit for country A is
(a) 5,000
(b) 24,000
(c) 4,500
(d) None of the above

519. Fiscal deficit of country A is
(a) 14,000
(b) 24,000
(c) 23,500
(d) None of the above

520. Primary deficit of Country A is
(a) 26,000
(b) 26,500
(c) 22,000
(d) 24,500

521. 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

522. 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

523. 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

524. 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

525. Outcome budgeting
(a) shares information about the money allocated for various purposes in a budget
(b) establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators
(c) establishes a direct link between budgetary performance targets and public account disbursals
(d) shares information about public

policies and programmes under the budget.

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

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

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

In ₹ 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

528. The capital receipts are
(a) 23.5
(b) 19.7
(c) 11.3
(d) None of the above

529. Revenue deficit is
(a) 23.6
(b) 13.0
(c) 7.0
(d) 2.6

530. The non–debt capital receipts of this country is
(a) 45.1
(b) 16.7
(c) 15.8
(d) None of the above

531. 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 of budget deficit occurs
(d) All the above

532. 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

533. 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

534. 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

535. 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

536. '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

---

537. 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

---

538. Which of the following is a capita receipt?
(a) License fee received
(b) Sale proceeds from disinvestment
(c) Assistance from Japan for covid vaccine
(d) Dividend from a public sector enterprise

---

539. 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.

540.
(a) RBI credit to states
(b) Commercial credit of RBI
(c) Ways and Means Advances (WMA)
(d) Short term facility

---

541. 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

---

542. 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)

---

543 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
(a) A, B and F are most likely to occur
(b) B, C and F are most likely to occur
(c) D, E and F are most likely to occur
(d) A, E and G are most likely to occur

---

544. 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

545. 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

546. 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

547. 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

548. 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

549. 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

550. 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

551. 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

552. 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 negativ effect fiscal policy may generate whe money from the private sector is 'crowde out' to the public sector.

III When spending by government in an economy increases government spending would be crowded out.

IV. Private investments, especially the ones which are interest –sensitive, will be reduced if interest rates rise due to increased spending by government

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

553. 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

554. 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.

555. 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

556. 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

557. 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

558. 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

559. 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

560. 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

561. 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 investm

(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

562 .While if governments compete with the private sector to borrow money for securingresources 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.

Que	Ans	Que	Ans	Que	Ans	Que	Ans	Que	Ans	Que	Ans
1	**A**	49	**C**	97	**A**	145	**C**	193	**C**	241	
2	**C**	50	**C**	98	**C**	146	**B**	194	**C**	242	
3	**C**	51	**A**	99	**D**	147	**D**	195	**A**	243	
4	**D**	52	**C**	100	**C**	148	**C**	196	**D**	244	
5	**C**	53	**A**	101	**B**	149	**C**	197	**C**	245	
6	**B**	54	**B**	102	**B**	150	**B**	198	**C**	246	
7	**D**	55	**C**	103	**A**	151	**B**	199	**B**	247	
8	**C**	56	**B**	104	**D**	152	**A**	200	**B**	248	
9	**C**	57	**C**	105	**C**	153	**A**	201	**C**	249	
10	**B**	58	**A**	106	**B**	154	**C**	202	**A**	250	
11	**D**	59	**B**	107	**C**	155	**C**	203	**D**	251	
12	**B**	60	**C**	108	**B**	156	**B**	204	**C**	252	
13	**C**	61	**B**	109	**A**	157	**B**	205	**A**	253	
14	**C**	62	**B**	110	**A**	158	**C**	206	**C**	254	
15	**D**	63	**C**	111	**D**	159	**C**	207	**D**	255	
16	**C**	64	**C**	112	**D**	160	**C**	208	**B**	256	**A**
17	**D**	65	**C**	113	**A**	161	**C**	209	**D**	257	**D**
18	**B**	66	**C**	114	**C**	162	**C**	210	**A**	258	**C**
19	**C**	67	**B**	115	**A**	163	**C**	211	**B**	259	**B**
20	**C**	68	**D**	116	**B**	164	**C**	212	**D**	260	**D**
21	**B**	69	**A**	117	**C**	165	**B**	213	**D**	261	**B**
22	**B**	70	**B**	118	**D**	166	**B**	214	**C**	262	**D**
23	**D**	71	**C**	119	**D**	167	**C**	215	**C**	263	**C**
24	**C**	72	**B**	120	**A**	168	**B**	216	**C**	264	**C**
25	**A**	73	**C**	121	**C**	169	**B**	217	**C**	265	**C**
26	**B**	74	**B**	122	**D**	170	**D**	218	**B**	266	**C**
27	**C**	75	**C**	123	**C**	171	**D**	219	**C**	267	**B**
28	**D**	76	**A**	124	**C**	172	**A**	220	**D**	268	**C**
29	**D**	77	**C**	125	**C**	173	**D**	221	**C**	269	**B**
30	**B**	78	**C**	126	**D**	174	**A**	222	**C**	270	**D**
31	**C**	79	**A**	127	**D**	175	**D**	223		271	**A**
32	**C**	80	**B**	128	**C**	176	**C**	224		272	**C**
33	**C**	81	**B**	129	**B**	177	**B**	225		273	**B**
34	**C**	82	**D**	130	**C**	178	**B**	226		274	**C**
35	**A**	83	**B**	131	**D**	179	**B**	227		275	**A**
36	**C**	84	**C**	132	**D**	180	**C**	228		276	**C**
37	**B**	85	**C**	133	**D**	181	**D**	229		277	**B**
38	**C**	86	**B**	134	**B**	182	**D**	230		278	**D**
39	**C**	87	**C**	135	**A**	183	**B**	231		279	**B**
40	**D**	88	**B**	136	**C**	184	**C**	232		280	**D**
41	**B**	89	**B**	137	**A**	185	**C**	233		281	**B**
42	**C**	90	**D**	138	**D**	186	**C**	234		282	**C**
43	**B**	91	**D**	139	**B**	187	**A**	235		283	**C**
44	**B**	92	**B**	140	**C**	188	**C**	236		284	**A**
45	**C**	93	**C**	141	**D**	189	**B**	237		285	**C**
46	**A**	94	**B**	142	**A**	190	**C**	238		286	**C**
47	**D**	95	**D**	143	**C**	191	**C**	239		287	**C**
48	**B**	96	B	144	B	192	C	240		288	**B**

Que	Ans	Que	Ans	Que	Ans	Que	Ans	Que	Ans	Que	Ans
289	B	334	C	379	A	424	B	469	B	514	D
290	C	335	B	380	C	425	B	470	A	515	b
291	B	336	C	381	C	426	B	471	B	516	c
292	D	337	C	382	A	427	C	472		517	c
293	B	338	B	383	C	428	B	473	B	518	c
294	C	339	C	384	C	429	B	474	D	519	B
295	B	340	C	385	B	430	B	475	B	520	C
296	C	341	B	386	B	431	C	476	C	521	B
297	C	342	D	387	A	432	C	477	D	522	B
298	D	343	C	388	A	433	C	478	B	523	C
299	B	344	C	389	C	434	C	479	B	524	B
300	C	345	B	390	A	435	C	480	D	525	B
301	C	346	D	391	A	436	D	481	C	526	D
302	A	347	A	392	C	437	B	482	B	527	A
303	C	348	D	393	C	438	C	483	C	528	A
304	A	349	C	394	C	439	B	484	A	529	C
305	C	350	B	395	C	440	B	485	c	530	B
306	A	351	B	396	A	441	B	486	C	531	D
307	C	352	B	397	C	442	C	487	D	532	D
308	B	353	C	398	C	443	D	488	D	533	D
309	B	354	A	399	B	444	A	489	D	534	D
310	B	355	B	400	C	445	B	490	C	535	B
311	C	356	C	401	C	446	C	491	B	536	D
312	D	357	C	402	C	447	B	492	B	537	B
313	D	358	C	403	C	448	C	493	C	538	B
314	B	359	B	404	A	449	C	494	B	539	B
315	C	360	D	405	B	450	C	495	C	540	C
316	C	361	C	406	B	451	D	496	B	541	A
317	C	362	C	407	C	452	C	497	C	542	C
318	B	363	C	408	C	453	C	498	A	543	B
319	C	364	C	409	A	454	C	499	C	544	B
320	D	365	C	410		455	B	500	A	545	C
321	A	366	B	411	C	456	C	501	B	546	D
322	B	367	B	412	D	457	C	502	A	547	A
323	B	368	A	413	B	458	C	503	D	548	C
324	C	369	C	414	B	459	D	504	C	549	D
325	C	370	C	415	C	460	D	505	C	550	C
326	B	371	D	416	C	461	C	506	D	551	A
327	B	372	A	417	A	462	B	507	C	552	C
328	B	373	D	418	B	463	D	508	B	553	B
329	D	374	C	419	A	464	D	509	C	554	A
330	B	375	B	420	C	465	C	510	C	555	B
331	A	376	C	421	D	466	C	511	C	556	B
332	C	377	C	422	B	467	D	512	D	557	D
333	B	378	B	423	C	468	A	513	D	558	D
										559	D
										560	D
										561	B
										562	D

Chapter – 8 Money Market
Unit : 1 The concept of money Demand : Important theories

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

---

2. Money performs all of the three functions mentioned below, namely
(a) medium of exchange, price control, store of value
(b) unit of account, store of value , provide yields
(c) medium of exchange, unit of account, store of value
(d) medium of exchange, unit of account, income distribution

---

3. Demand for money is
(a) Derived demand
(b) Direct demand
(c) Real income demand
(d) Inverse demand

---

4. Higher the _____________, higher would be of holding cash and lower will be the _____________________
(a) demand for money, opportunity cost, interest rate
(b) price level , opportunity cost, interest rate
(c) real income , opportunity cost, demand for money
(d) interest rate, opportunity cost, demand for money

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

---

6. The Cambridge approach to quantity theory is also known as
(a) Cash balance approach
(b) Fisher's theory of money
(c) Classical approach
(d) Keynesian Approach

---

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

---

8. Real money is
(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

---

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

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

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

13. According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:
(a) a positive function of income Y and the price level P
(b) a positive function of transactions costs c,
(c) a negative function of the nominal interest rate i
(d) All the above

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

15. The nominal demand for money rises if____
(a) the opportunity costs of money holdings – i.e. bonds and stock returns, rB and rE , respectively-decline and vice versa
(b) the opportunity costs of money holdings – i.e. bonds and stock returns, rB and rE , respectively-rises and vice versa
(c) the opportunity costs of money holdings – i.e. bonds and stock returns, rB and rE , respectively remain constant
(b) and c) above

16. Reserve money is also known as
(a) central bank money
(b) base money
(c) high powered money
(d) all the above

17. 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.

18. 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.

19. 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

20. 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

21. 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

22. 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.

23. 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

24. 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

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

26. 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.

27. 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.

28. 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

29. 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)

30. 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

31. 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

32. 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

33. 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

34. 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.

35. 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

36. 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

37. 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

38. 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

39. 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

40. 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

41. 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)

42. 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

43. 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)

44. 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

45. 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

46. 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

---

47. Which statement (s) is (are) true about Monetary Policy Committee?

I. The Reserve Bank of India (RBI) Act, 1934 was amended on June 27, 2016, for giving a statutory backing to the Monetary Policy Framework Agreement and for setting up a Monetary Policy Committee

II. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of experts required to achieve the inflation target.

III. The Monetary Policy Committee shall determine the policy rate through consensus from the governor of RBI

IV. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of bankers chosen for eth purpose

(a) I only

(b) I and II only

(c) III and IV

(d) III only.

Answer

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

Chapter 9 : International Trade

1. Which of the following does not represent a difference between internal trade andinternational trade?
   - (a) Transactions in multiple currencies
   - (b) homogeneity of customers and currencies
   - (c) differences in legal systems
   - (d) none of the above

2. The theory of absolute advantage states that
   - (a) national wealth and power are best served by increasing exports and decreasingimports
   - (b) nations can increase their economic well-being by specializing in the productionof 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

3. Which of the following theories advocates that countries should produce those goods forwhich 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

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

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

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

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

   Labour cost (hours) for production of one unit

	Wheat	Rice
Country X	10	20
Country Y	20	10

(a) 20 labour hours

(b) 10 labour hours

(c) 30 labour hours

(d) Does not gain anything

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

Labour cost (hours) for

production of one unit

	India	Bangladesh
Tables	3	8
Mats	2	1

(a) Bangladesh has a comparative advantage in mats

(b) India has a comparative advantage in tables

(c) Bangladesh has an absolute advantage in mats

(d) All the above are true

9. Comparative advantage refers to

(a) a country's ability to produce some good or service at the lowest possible cost compared to other countries

(b) a country's ability to produce some good or service at a lower opportunity cost than other countries.

(c) Choosing a productive method which uses minimum of the abundant factor

(d) (a) and (b) above

10. Ricardo explained the law of comparative advantage on the basis of

(a) opportunity costs

(b) the law of diminishing returns

(c) economies of scale

(d) the labour theory of value

11. 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

12. 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

13. 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

14. 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

15. 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

(a) domestic firms agreeing to limit the quantity foreign products sold in theirdomestic markets

(b) an exporting country voluntarily restraining the quantity of goods that can be exported out of a country during a specified period of time

(c) quantitative restrictions imposed by the importing country's government.

16. 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

17. A countervailing duty is

(a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country

(b) charged by importing countries to ensure fair and market-oriented pricing ofimported products

(c) charged by importing countries to protect domestic industries and firms fromunfair price advantage arising from subsidies

(d) All the above

18. Which of the following is an outcome of tariff?

(a) create obstacles to trade and increase the volume of imports and exports

(b) domestic consumers enjoy consumer surplus because consumers must now payonly a lower price for the good

(c) discourage domestic consumers from consuming imported foreign goods andencourage consumption of domestically produced import substitutes

(d) increase government revenues of the importing country by more than value ofthe total tariff it charges

19. SPS measures and TBTs are

(a) permissible under WTO to protect the interests of countries

(b) may result in loss of competitive advantage of developing countries

(c) increases the costs of compliance to the exporting countries

(d) All the above

20. Which of the following is not a non-tariff barrier.

(a) Complex documentation requirements

(b) Import quotas on specific goods

(c) Countervailing duties charged by importing country

(d) Pre shipment product inspection and certification requirements

---

21. Under tariff rate quota

(a) countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement

(b) a country permits an import of limited quantities at low rates of duty but subjectsan excess amount to a much higher rate

(c) lower tariff is charged from goods imported from a country which is given preferential treatment

(d) none of the above

---

22. Non -tariff barriers (NTBs) includ all of the following except:

(a) import quotas

(b) tariffs

(c) export subsidies

(d) technical standards of products

---

23. 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

---

24. 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 wellas intellectual property.

(c) All members of the World Trade Organization are required to avoid tariffs of alltypes

(d) All the above

---

25. The 'National treatment' principle stands for

a) the procedures within the WTO for resolving disagreements about trade policyamong countries

b) the principle that imported products are to be treated no worse in the domesticmarket than the local ones

c) exported products are to be treated no worse in the domestic market than thelocal ones

d) imported products should have the same tariff, no matter where they areimported from

---

26. '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

---

27. The essence of 'MFN principle' is

(a) equality of treatment of all member countries of WTO in respect of mattersrelated 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

---

28. The World Trade Organizatio (WTO)

(a) has now been replaced by th GATT

(b) has an inbuilt mechanism to settl disputes among members

(c) was established to ensure free an fair trade internationally.

(d) (b) and c) above

---

29. 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

---

30. The Agreement on Textiles and Clothing

(a) provides that textile trade should be deregulated gradually and the tariffs shouldbe 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 theirdomestic textile industries

(d) stipulated that tariffs in all countries should be the same

---

31. 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 allmembers

(d) all the above

---

32. 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

---

33. 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

---

34. 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

---

35. 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 inexchange rate

---

36. '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

---

37. 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. Deprecation

b. Revolution

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)

---

38. Choose the correct statement

(a) An indirect quote is the number c units of a local currency exchangeable for oneunit 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 oneunit of a foreign currency

(d) Exchange rates are generally fixec by the central bank of the countr

---

39. 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

---

40. 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

---

41. 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

42. At any point of time, all market tend to have the same exchange rate for a given currency due to

(a) Hedging

(b) Speculation

(c) Arbitrage

(d) Currency futures

---

43. '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.

---

44. 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.

---

45. 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

---

46. 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

---

47. 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

---

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

a. Mauritius

b. USA

c. Japan

d. USA

---

49. 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

---

50. 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

---

51. 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

---

52. Foreign investment are prohibited in

a. Power generation and distribution

b. Highways and waterways

c. Chit funds and Nidhi company

d. Airports and air transport

---

53. 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

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

Chapter –10 Indian Economy

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

2. The first wave of liberalization starts in India
(a) In 1951
(b) In 1980's
(c) In 1990
(d) In 1966

3. The sequence of growth and structural change in Indian economy is characterized by
(a) The historical pattern of prominence of sectors as agriculture, industry, services
(b) The historical pattern of prominence of sectors as industry, services, agriculture
(c) Unique experience of the sequence as agriculture, services, industry
(d) All the above are correct

4. Merchandise Exports from India Scheme was replaced by -
(a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021
(b) National Logistics Policy (NLP) in 2020
(c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019
(d) None of the above

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

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

7. In terms of Ease of Doing Business in 2020 India ranks
(a) 63
(b) 77
(c) 45
(d) None of the above

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

9. Which of the following is not a policy reform included in the new economic policy of 1991 -
(a) removing licensing requirements for all industries
(b) Foreign investment was liberalized
(c) Liberalisation of international trade
(d) The disinvestment of government holdings of equity share capital of public sector enterprises

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

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

12. In the context of the new economic policy of 1991, the term 'disinvestment' stands for -
(a) A policy whereby government investments are reduced to correct fiscal deficit
(b) The policy of sale of portion of the government shareholding of a public sector enterprise
(c) The policy of public partnership in private enterprise
(d) A policy of opening up government monopoly to the privates sector

13. The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -
(a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few
(b) to provide for the control of monopolies
(c) to prohibit monopolistic and restrictive trade practice
(d) all the above

14. Which one of the following is a feature of green revolution -
(a) use of soil friendly green manure to preserve fertility of soil
(b) grow more crops by redistributing land to landless people
(c) High yielding varieties of seeds and scientific cultivation
(d) Diversification to horticulture

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

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

17. The new economic policy of 1991 manifest in -
(a) State led industrialization and import substitution
(b) Rethinking the role of markets versus the state
(c) Emphasized the role of good governance

(d) Bringing about reduction in poverty and redistributive justice

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

19. 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

20. 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

21. 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

22. 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.

23. 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

24. 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

25. If the consumption function is C = 20 + 0.5Yd, then an increase in disposable income by 100 will result in an increase in consumer expenditure by -----------
(a) 25
(b) 70
(c) 50
(d) 100

26. If the autonomous consumption equals ₹ 2,000 and the marginal propensity to consume equals 0.8. If disposable income equals ₹10,000, then total consumption will be ₹ _____
(a) 8,000
(b) 6,000
(c) 10,000
(d) None of the above

27. 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

28. 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.

29. 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

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

.