

CA FOUNDATION

**SUBJECT:-
BUSINESS
ECONOMICS**

Unique CA
CHAPTER - 1

NATURE & SCOPE OF BUSINESS ECONOMICS

EXTRA MCQ'S

1) In the economics, what does a non-profit organization (NPO) aim at?

- A) Achieving social benefits
- B) Accumulating surplus funds
- C) Producing consumer goods
- D) Creating various types of goods and services

2) Which decision problem does a production unit face in economic activities?

- A) What to produce?

B) Why to produce?

C) What should be the maturity and other terms?

D) When to raise funds?

3) What is one of the most important concerns of modern economies?

A) Stable quality of productive resources

B) Limited sources of raw materials

C) Decreasing population

D) Growth in production and income

4) In economics, what is the concern during periods when output fails to grow?

A) Insufficient demand

B) Overproduction of goods

C) Insufficient supply of resources

D) Equilibrium in supply and demand

5) What are some economic issues that the study of Economics helps analyze?

A) Cultural trends

B) Changes in general price level

C) Historical events

D) Geopolitical conflicts

6) How does the study of Economics assist in dealing with economic problems?

A) By offering tools and frameworks that can be applied in different situations

B) By guaranteeing success in all decision-making

- C) By exclusively focusing on economic forces**
- D) By ignoring the influence of political and social factors**

7) What does the study of Economics provide in terms of decision-making?

- A) Exclusive focus on profit maximization**
- B) Neglect of social implications**
- C) Fixed solutions to all problems**
- D) Analytical approach to understanding economic issues**

8) What are the types of decisions that the management of a business unit needs to make?

- A) Operational, strategic, and emotional decisions**
- B) Strategic, tactical, and habitual decisions**
- C) Operational, tactical, and traditional decisions**
- D) Strategic, tactical, and operational decisions**

9) Why does decision making in the business become complex and challenging?

- A) Due to the abundance of resources available**
- B) Because the economic environment is simple and static**
- C) Most decisions are made under conditions of imperfect knowledge and uncertainty**
- D) Due to the limited alternatives available**

10) What is the main purpose of integrating economic theory with business practice in Business Economics?

- A) To promote inefficiencies in decision making**
- B) To provide analytical tools for rational business decision making**

C) To complicate the concepts of supply and demand

D) To confuse decision makers

11) How did Joel Dean define Business Economics?

A) The use of political analysis in business decision-making

B) The use of economic analysis in the formulation of business policies

C) The application of marketing techniques in business strategies

D) The use of financial analysis in business policies

12) Which quantitative techniques are included in Business Economics?

A) Macroeconomic forecasting

B) Game theory and behavioral economics

C) Linear programming, regression analysis, and capital budgeting

D) Supply and demand analysis

13) How does Business Economics differ from pure Economics?

A) Business Economics disregards market forces

B) Business Economics focuses solely on government policies

C) Business Economics is limited to large corporations.

D) Business Economics applies economic principles to real-world business decisions

14) What role does Macroeconomics play in Business Economics?

A) Macroeconomics shapes the long-run trends in the business world

- B) Macroeconomics does not influence Business Economics**
- C) Macroeconomics focuses on individual units**
- D) Macroeconomics is the primary focus of Business Economics**

15) How does the study of Macro Economics influence the decisions of business economists?

- A) It has no impact on business decisions**
- B) It has a minor role in business decision-making.**
- C) It focuses on short-term business strategies**
- D) It helps in understanding long-run trends and shaping suitable policies**

16) What sets Business Economics apart from Micro-Economics?

- A) It lacks consideration of the external economic environment**
- B) It relies heavily on Microeconomics techniques**
- C) It is not interdisciplinary in nature**
- D) It does not involve practical application of rules and principles**

17) What key feature of Business Economics makes it pragmatic in its approach?

- A) It is rooted in abstract concepts**
- B) It ignores practical problems faced by firms**
- C) It is purely theoretical with no real-world application**
- D) It involves decision-making based on realistic circumstances**

18) What is the purpose of Demand Forecasting in Business Economics?

A) Predicting business cycles

B) None of the above

C) Predicting future demand for goods and services

D) Forecasting inflation rates

19) Which of the following is NOT considered a major macro-economic factor relating to external or environmental issues of a business?

A) Socio-economic organizations

B) Analysis of consumer behavior

C) Government's economic policies

D) Type of economic system

20) How does the external environment influence business decisions?

A) By minimizing the effect of environmental factors

B) By ignoring external factors

C) None of the above

D) By fine-tuning policies to minimize adverse effects

21) What role do factors of production play in determining "how to produce" goods and services?

A) They influence the decision on economic growth provisions

B) They help decide the most suitable techniques for production

C) They dictate the distribution of goods within a society

D) They determine the quantity of each good to produce

22) What is the main reason for a society to make provisions for economic growth?

A) To avoid declining living standards in the future

B) To increase current consumption

C) To decrease standards of living

D) To ensure stagnant production capacity

23) Why does a society have to decide "for whom to produce"?

A) To decide the shares of goods and services among the population

B) To satisfy the consumption needs of all members

C) To avoid making provisions for economic growth

D) To ensure equal distribution of resources

24) What is the significance of consumer sovereignty in a capitalist economy?

A) Consumers determining which goods and services are produced

B) Limited choices for consumers

C) Producers determining consumption patterns

D) Consumers deciding production quantities

25) What does the absence of government interference imply in a capitalist economy?

A) Self-interest and price mechanism guiding economic decisions automatically

B) State ownership of resources

C) Price controls

D) Controlled markets

26) Why is competition considered a vital feature of a capitalist economy?

- A) Increases governmental control**
- B) Promotes resource wastage**
- C) Encourages monopolies**
- D) Results in efficient resource use**

27) How do entrepreneurs in a capitalist economy determine the technique of production to use?

- A) Based on the minimum cost of production**
- B) Based on random selection**
- C) Based on government subsidies**
- D) Based on historical practices**

28) In a capitalist economy, goods and services are produced for those who:

- A) Have the highest buying capacity**
- B) Have the highest level of education**
- C) Have political influence**
- D) Have the most social connections in paid services**

29) What does capitalism encourage in terms of entrepreneurial behavior?

- A) Prohibition of business activities**
- B) Averse to taking risks**
- C) Risk-taking and the emergence of an entrepreneurial class**
- D) Reluctance to start businesses**

30) How does capitalism benefit consumers?

- A) Decreased quality of products**

- B) Limited choices**
- C) Large variety of good quality products at reasonable prices**
- D) Restricted freedom of choice**

31) What is a key feature of a capitalist economy?

- A) Government ownership of resources**
- B) Centralized planning**
- C) Self-regulating through price mechanism**
- D) Equality of income distribution**

32) In what kind of framework does capitalism typically function?

- A) Authoritarian structure**
- B) Monarchical system**
- C) Socialistic framework**
- D) Democratic framework**

33) In a socialist economy, how are differences in income and wealth narrowed down?

- A) By promoting individual entrepreneurship**
- B) By guaranteeing equal opportunities for all**
- C) Through tax breaks for the wealthy**
- D) Lack of opportunities to accumulate private capital**

34) What role does the price mechanism play in a socialist economy?

- A) Encouraging competition among producers**
- B) Setting market prices through supply and demand**
- C) Securing the disposal of accumulated stocks**

D) Influencing major economic decisions

35) Under a socialist economy, who owns the material means of production such as factories and mines?

A) Local governments

B) Private individuals

C) Paid Services women

D) The whole community represented by the State

36) In a socialist economy, what is the impact on unemployment and business fluctuations?

A) Minimized unemployment and eliminated business fluctuations

B) Unemployment is not addressed

C) Unpredictable fluctuations in the business cycle

D) Increased unemployment and constant fluctuations

37) How does the absence of profit motive in socialism affect the society?

A) Encourages excessive advertisement and sales promotion

B) Fosters a cooperative mentality among the community

C) Leads to wastage of resources

D) Encourages excessive competition

38) How does socialism contribute to avoiding class war?

A) Promoting inequality

B) Ignoring social welfare

C) Providing special privileges to certain classes

D) Developing a cooperative mentality and ensuring equality

39) How is economic development described in a socialist economy?

- A) Driven solely by profit motives**
- B) Slow and imbalanced**
- C) Coordinated by a central planning authority to ensure balance and efficiency**
- D) Dependent on individual decision-making**

40) How does socialism impact the freedom of individuals?

- A) It provides incentives for profit-making**
- B) It encourages entrepreneurial activities**
- C) It increases personal wealth and income**
- D) It restricts freedom by promoting state ownership of means of production and control over economic activities**

41) What is one of the critiques regarding socialism and incentives for hard work?

- A) It places emphasis on individual wealth accumulation**
- B) It does not offer any incentives for hard work in the form of profit**
- C) It encourages a competitive work environment**
- D) It ensures equal distribution of wealth among all citizens**

42) What role does personal efficiency play in a socialist system?

- A) It is the sole criterion for determining rewards**
- B) Labourers are rewarded according to their efficiency**
- C) Personal efficiency is not considered important in socialism**
- D) Efficiency is highly valued and rewarded**

43) How does limited freedom of choice impact consumers under socialism?

A) Consumers can choose products from a variety of privately owned companies

B) Consumers have complete control over production decisions

C) There is no impact on consumer choice

D) Consumers are required to accept what the state produces

44) What is one of the potential issues associated with state control in socialism?

A) Lack of personal incentives for productivity

B) Development of a variety of industries

C) Emphasis on personal wealth accumulation

D) State monopolies becoming uncontrollable

45) How does a mixed economy address the potential downsides of private enterprise?

A) By promoting a profit-only motive in the market

B) By imposing necessary controls and regulations on private sector activities

C) By completely eliminating private enterprise

D) By neglecting the welfare objectives of the nation

46) What is the significance of private enterprise in a mixed economy?

A) Private enterprise is allowed to play a positive role alongside government interventions

B) Private enterprise must prioritize government interests

C) Private enterprise is given complete control without regulations

D) Private enterprise is completely banned

47) What measures does the government take to ensure private sector compliance with welfare objectives in a mixed economy?

A) Allowing private enterprises to function independently without intervention

B) Encouraging the pursuit of profit motive above all else

C) Running all industries without any private involvement

D) Enforcing necessary controls and regulations on the private sector operations

48) How does a mixed economy promote economic development similar to that of England and the USA?

A) By limiting private enterprise involvement

B) By excluding self-interest in economic activities

C) By solely relying on government control

D) By balancing the advantages of private enterprise and government intervention

49) How does a mixed economy balance self-interest and the welfare of the community?

A) By completely eliminating government interventions

B) By regulating the private sector to align with the nation's welfare objectives

C) By ignoring the profit motive

D) By allowing unrestricted free play of self-interest

50) In a combined sector of a mixed economy, what do the government and private enterprises do?

- A) Operate independently**
- B) Form a cartel**
- C) Compete against each other**
- D) Have equal access and join hands to produce commodities and services**

51) What is the main objective of industries in the public sector of a mixed economy?

- A) Welfare of the community**
- B) Serving the interests of private individuals**
- C) Promoting competition**
- D) Maximizing profits**

52) Which sector in a mixed economy is not primarily profit-oriented?

- A) Public sector**
- B) Joint sector**
- C) Profit-oriented sector**
- D) Combined sector**

53) How does the price mechanism and competition in a mixed economy benefit decision-making and resource allocation?

- A) Leads to resource wastage**
- B) Slows down decision-making processes**
- C) Promotes efficient decision-making and better resource allocation**
- D) Does not promote efficiency**

54) What is a potential advantage of a mixed economy in terms of economic and social equality?

- A) Limited social freedoms**
- B) Lack of state participation**
- C) Greater income inequality**
- D) Greater economic and social equality due to state participation and direction of economic activities**

55) What is a potential challenge that a mixed economy could face?

- A) Guaranteed success**
- B) Substantial uncertainties**
- C) Lack of risks**
- D) Stable environment**

56) In the absence of governmental initiatives, what is a likely outcome concerning the private sector in a mixed economy?

- A) Enhanced efficiency in planning**
- B) Disproportionate growth**
- C) Underperformance in the public sector**
- D) Limited growth**

57) What is a challenge faced in a mixed economy concerning the public and private sectors?

- A) Maintaining a proper balance**
- B) Corruption in both sectors**
- C) Growing the public sector disproportionately**
- D) Strong governmental initiatives**

58) What is a potential consequence of a mixed economy resembling capitalism?

- A) Improved balance between sectors
- B) Decreased growth in the private sector
- C) Higher levels of corruption
- D) Adoption of capitalism's disadvantages

59) In brief, what does Business Economics aim to achieve?

- A) To analyze practical managerial problems rationally
- B) To eliminate the need for analytical tools in decision making
- C) To complicate the decision-making process
- D) To encourage irrational business practices

60) What discipline is suggested as helpful in analyzing the rationality and optimality of choices in economics?

- A) Psychology
- B) Mathematics
- C) Economics
- D) Sociology

Answerkey :-

A :- 1 , 2 , 4 , 6 , 14 , 19 , 22 , 23 , 24 , 25 , 27 , 28 , 36 , 46 , 51 , 52 , 57 , 59

B :- 5 , 10 , 11 , 16 , 21 , 37 , 41 , 42 , 45 , 49 , 55 , 56

C :- 9 , 12 , 18 , 29 , 30 , 31 , 34 , 39 , 53 , 60

D :- 3 , 7 , 8 , 13 , 15 , 17 , 20 , 26 , 32 , 33 , 35 , 38 , 40 , 43 , 44 , 47 , 48 , 50 , 54 , 58

CHAPTER - 2

THEORY OF DEMAND & SUPPLY

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EXTRA MCQ'S

1) In Economics, what is necessary for desire to be considered as demand?

A) Desire must be to get paid services satisfaction.

B) Desire must be constantly changing

C) Desire must be for luxury items only

D) Desire must be backed by purchasing power or ability to pay and willingness to pay

2) What is the key factor that distinguishes desire from demand in Economics?

A) Purchasing power and willingness to pay

B) Constraints faced by buyers

C) Marketing tactics

D) Availability of products in the market

3) How do consumers' expectations affect current demand?

A) Expecting future price rise decreases current demand

B) Anticipating income growth decreases current demand

C) Low business confidence increases spending

D) High consumer confidence leads to lower demand

4) What role do population size and age distribution play in determining demand?

A) Larger population size leads to lower demand

B) Age distribution has no impact on demand

C) Younger age groups lead to decreased demand for children's goods

D) Age distribution can affect demand for specific goods

5) How do tastes and preferences related to fashion impact demand?

A) External effects have no impact on demand

B) Snob effect increases demand

C) Fashionable goods have higher demand due to external effects

D) Veblen effect has no relation to price

6) What is the main focus when studying demand as a function of only price?

A) The money income of the consumer

B) The quantity demanded of product X

C) The relationship between demand and price

D) Keeping everything constant

7) How does an increase in consumer income impact the validity of the law of demand?

A) It strengthens the law of demand

B) It reverses the law of demand

C) It may not hold true if other factors change

D) It has no effect on the law of demand

8) What does it mean when the quantity demanded of a good or service can exceed the quantity actually sold?

A) There is a surplus of the good

B) Consumers are willing to buy more at a given price

C) There is perfect competition in the market

D) There is a shortage of the good

9) The income effect of a fall in price results in:

A) Decrease in real income

B) Increase in demand for inferior goods

C) Increase in purchasing power and demand for normal goods

D) Decrease in utility maximization

10) What role does diminishing marginal utility play in the Law of Demand?

- A) It increases consumer expenditure**
- B) It causes an upward sloping demand curve**
- C) It results in a downward sloping demand curve**
- D) It encourages consumers to buy more at higher prices**

11) How does the law of demand apply to commodities with multiple uses?

- A) The demand curve slopes upwards**
- B) The demand decreases as the price falls**
- C) The demand remains constant regardless of price changes**
- D) The demand increases as the number of uses increases**

12) How do new consumers affect demand according to the Law of Demand rationale?

- A) They decrease the number of consumers**
- B) They increase the price of the commodity**
- C) They raise the number of consumers and increase demand when the price falls**
- D) They have no impact on demand**

13) The demand for necessities of life is an exception to the law of demand because:

- A) People demand larger quantities even at higher prices**
- B) Speculative market influences demand**
- C) Consumers are irrational in their decisions**

D) Consumers make impulsive purchases

14) What effect is observed when households expect future prices to rise and therefore demand larger quantities of commodities?

A) Conspicuous necessities effect

B) Future expectations effect

C) Speculative goods effect

D) Veblen effect

15) What factor can invalidate the law of demand if there is a change in it, despite the price remaining constant?

A) Prices of related commodities

B) Speculative goods

C) Taste and fashion

D) Demand for necessities

16) The law of demand may fail in the market for stocks and shares due to:

A) Conspicuous goods

B) Speculative goods

C) Giffen goods

D) Future expectations about prices

17) How does elasticity of demand help in making pricing decisions?

A) It evaluates the promotional discounts

B) It sets the legal price restrictions

C) It influences the pricing strategies based on demand responsiveness

D) It controls the distribution channels

18) How does price elasticity of demand vary across different products?

A) It remains constant for all goods and services

B) It can differ based on the necessity and availability of substitutes

C) It is directly proportional to the promotional efforts

D) It is always perfectly elastic

19) Why is it important for a business firm to understand elasticity of demand?

A) To reduce the profit margin

B) To analyze the market competition

C) To increase production costs

D) To make demand predictions and recommend changes in strategies

20) Which situation best illustrates a relatively elastic demand?

A) A 15% increase in price leads to a 25% decrease in quantity demanded

B) A 8% decrease in price leads to a 4% increase in quantity demanded

C) A 5% increase in price leads to a 2% decrease in quantity demanded

D) A 3% increase in price leads to a 1% increase in quantity demanded

21) Why is the main drawback of the total outlay method of calculating price elasticity?

A) It cannot find the exact coefficient of price elasticity

B) It does not consider total revenue

C) It cannot predict changes in price

D) It only determines unitary elasticity

22) If the price of a good increases, and the total revenue received from that good also increases, what can be said about the price elasticity of demand?

A) It is greater than unity

B) It is elastic

C) It is less than unity

D) It is unitary

23) How does the degree of elasticity of demand affect a business firm's decision making?

A) It impacts market share

B) It determines production costs

C) It helps in setting prices

D) It affects total revenue earned

24) When will the demand curve shift to the right?

A) Fall in population

B) Change in tastes against a commodity

C) Rise in price of a substitute

D) Rise in income

25) What type of goods may result in an upward-sloping demand curve?

A) Giffen goods

B) Normal goods

C) Luxury goods

D) Necessities

26) How do wants affect each other for satisfaction?

A) Wants are competitive and compete with each other for satisfaction because resources are scarce

B) Wants may become habits and customs

C) Wants do not compete with each other for satisfaction

D) Wants are complementary and must be satisfied simultaneously

27) What does the concept of 'want' in economics depend on in terms of satisfaction?

A) Fashion

B) Income

C) Social obligations

D) Intensity of wants

28) How does utility differentiate from

usefulness?

A) Utility considers moral and ethical values while usefulness does not

B) Utility is a psychological concept and differs from usefulness which has no concern with moral or ethical values

C) Utility and usefulness are interchangeable terms

D) Utility is the sum of wants while usefulness is the satisfaction derived from a commodity

29) How do wants vary according to economics?

A) Wants are subjective and relative, varying with time, place, and person

B) Wants are affected by only income and social status

C) Utility is not influenced by wants

D) Wants are objective

30) Which of the following is NOT a characteristic of necessities?

A) Minimum physiological needs for the maintenance of life

B) Sub-divided into necessities for life or existence, necessities for efficiency, and conventional necessities

C) Not necessary for existence or efficiency

D) Examples include nourishing food and adequate clothing

31) What can be said about the categorization of wants?

A) Rigid and fixed

B) Comforts make life possible

C) Items which were luxuries in the past have become comforts and necessities today

D) Only applicable to one person

32) Which category of wants includes items that are not necessary for living?

A) Necessaries for efficiency

B) Necessaries

C) Luxuries

D) Conventional necessities

33) What can be classified as a necessary for life or existence?

A) Nourishing food

B) Comfortable dwelling

C) Clean water

D) Minimum amount of food, clothing, and shelter

34) Which assumption is NOT required for the law of diminishing marginal utility to hold true?

A) There should be a time gap between the consumption of units

B) Identical units consumed should be consistent

C) The consumer's habits and tastes should remain constant

D) The law may not apply to certain luxury items like gold or cash

35) How does the consumer's want for a good change as per the law of diminishing marginal utility?

A) It increases continuously

B) It decreases as more units are consumed

C) It fluctuates wildly

D) It becomes insatiable

36) Which of the following is a valid assumption for the law of diminishing marginal utility?

A) The law applies to all goods without exception

B) The consumer's habits and tastes should vary

C) Marginal utility decreases with the increase in consumption

D) Different units consumed should not be standard

37) The concept of consumer surplus is closely related to:

A) the supply curve

B) the quantity supplied

C) the production cost

D) the demand curve

38) Why is it important for a business firm to consider the amount of consumer surplus enjoyed by different segments of their customers?

A) To determine market demand

B) To encourage repeat purchases

C) To understand the elasticity of supply

D) To maximize their expenses

39) How does consumer surplus play a role in large scale investment decisions?

A) By regulating market demand

B) By influencing government regulations

C) By affecting cost-benefit analysis

D) By determining market competition

40) In what situation is it desirable to impose taxes or increase tax rates on commodities based on consumer surplus?

A) When there is a surplus in government spending

B) When the loss of consumer welfare will be minimal

C) When consumers are facing financial difficulties

D) When there is a high demand for the product

41) How can consumer surplus impact the decision-making process for a firm considering raising product prices?

A) By increasing market saturation

B) By reducing production costs

C) By expecting fewer sales if prices are increased

D) By encouraging impulse buying

42) Why do customers who perceive large consumer surplus are more likely to repeat their purchases?

A) Due to increased value for money

B) Due to higher advertising exposure

C) Due to price discrimination

D) Due to loyalty programs

43) How can business managers identify groups of consumers with different elasticity of demand within their market?

A) By using cost-benefit analysis

B) By expanding the product line

C) By increasing the advertising budget

D) By practicing price discrimination

44) Why is it often argued that the concept of consumer surplus is hypothetical and illusory?

A) Because it can be measured precisely

B) Because it is measurable in terms of money

C) Because it is difficult to measure the marginal utilities of different units of a commodity consumed by a person

D) Because it is affected by the availability of substitutes

45) What poses challenges in measuring the utility scale of articles used for their prestige value, such as diamonds?

A) The lack of a simple rule for deriving the utility scale

B) The assumption that utility can be measured in terms of money

C) The need for constant marginal utility of earlier units of necessaries

D) The availability of substitutes for such articles

46) Why is it unrealistic to assume that the marginal utility of money remains constant, as suggested by Marshall?

A) Because it simplifies the measurement of consumer surplus

B) Because it affects the consumer's stock of money

C) Because it makes consumer surplus measurable in terms of money

D) Because it decreases the availability of substitutes

47) What leads to the eternal existence of consumer surplus in the case of necessaries?

A) The availability of substitutes

B) The constant measurement of utility in terms of money

C) The infinite marginal utilities of earlier units

D) The assumption that consumer surplus is always finite

48) How does the diminishing stock of money impact the measurement of consumer surplus in terms of money?

A) It makes consumer surplus infinite

B) It changes the marginal utility of money as purchases are made

C) It simplifies the measurement of consumer surplus

D) It leads to a precise measurement of consumer surplus

49) Moving upward and to the right on an indifference curve map represents what change in utility?

A) No change

- B) Decrease**
- C) Stability**
- D) Increase**

50) How are consumer tastes and preferences depicted in an indifference curve map?

- A) Through a single curve**
- B) Through price fluctuations**
- C) Through changes in supply and demand curves**
- D) Through indifference curves of varying levels of satisfaction**

51) What does supply refer to in economics?

- A) The government policy on trading**
- B) The quantity of goods offered for sale at a particular price at a certain point of time**
- C) The state of technology in production**
- D) The desire of consumers to purchase goods**

52) What does the law of supply state?

- A) The quantity supplied remains constant regardless of price changes**
- B) As the price of a good rises, the quantity supplied decreases**
- C) When the price of the good rises, the corresponding quantity supplied increases**
- D) The quantity supplied is not affected by changes in price**

53) How is the relationship between the amount of supply and price shown in the supply curve?

- A) Horizontal straight line**

B) Downward sloping curve

C) No relationship shown

D) Upward sloping curve

54) What does elasticity of supply measure?

A) The responsiveness of supply to change in the price of the commodity

B) The state of equilibrium in the market

C) The responsiveness of supply to demand changes

D) The relationship between price and quantity supplied

55) What is the equilibrium price in a market?

A) The highest price set by sellers

B) The price that maximizes consumer surplus

C) The price determined by government policy

D) The price at which the wishes of both buyers and sellers are satisfied

56) What does producer surplus represent?

A) The total sales revenue of producers

B) The benefit derived by producers from the sale of a unit beyond their cost of production

C) The maximum price producers are willing to accept

D) The profit margin of producers

57) How is elasticity of supply classified?

A) Perfectly elastic, relatively less-elastic, relatively greater-elastic, unit-elastic and perfectly inelastic supply

B) Perfectly elastic, perfectly inelastic, and unit-elastic

C) Inelastic and unit-elastic only

D) Perfectly inelastic, relatively less-elastic, and relatively greater-elastic supply

58) What are the determinants of elasticity of supply?

A) Change in costs as output changes and complexity of production processes

B) Change in costs as output changes and number of producers

C) Complexity of production processes and number of consumers

D) Change in costs as output changes, complexity of production processes, time period, number of producers, and degree of competition, among others

59) How is the elasticity of supply measured?

A) Width of the supply curve

B) Availability of raw materials

C) Number of producers in the market

D) Point elasticity and arc-elasticity

60) At equilibrium price, what does social efficiency achieve?

A) Equal profits for all producers.

B) Maximum competition among producers

C) Maximum social surplus for both producers and consumers

D) Maximum social welfare for producers only

Answerkey :-

A :- 2 , 13 , 15 , 21 , 25 , 26 , 29 , 42 , 45 , 54 , 57

B :- 8 , 14 , 16 , 18 , 20 , 28 , 35 , 38 , 40 , 48 , 51 , 56

C :- 5 , 7 , 9 , 10 , 12 , 17 , 22 , 31 , 32 , 36 , 39 , 41 , 44 , 46 , 47 , 52 , 60

D :- 1 , 3 , 4 , 6 , 11 , 19 , 23 , 24 , 27 , 30 , 33 , 34 , 37 , 43 , 49 , 50 , 53 ,
55 , 58 , 59

THANK YOU!



Unique CA

CHAPTER - 3

THEORY OF PRODUCTION & COST

EXTRA MCQ'S

1) In Economics, what is the wider sense of the term "production"?

A) Only the growing of agricultural crops

B) Only providing services such as teaching or healthcare

C) Transforming resources into commodities and services to satisfy human wants

D) Only manufacturing of industrial products

2) Which of the following activities can be considered as part of production in Economics?

A) Cooking a meal for one's family

B) Making clothes for personal use

C) Gardening in one's backyard

D) Building houses for sale in the real estate market

3) According to James Bates and J.R. Parkinson, what is the objective of production?

A) To transform resources into finished products

B) To add utility to nature

C) To increase the cost of goods and services

D) To produce intangible outputs

4) What does it mean for labour to be a "perishable" factor?

A) Labour can be stored for future use

B) Labour is a passive factor

C) Labour has indestructible powers

D) A day's labour lost cannot be completely recovered by extra work on any other day

5) In Economics, why is a labourer considered the source of their own labour power?

A) All labour may not be productive

B) Labour is an active factor

C) Labour has poor bargaining power

D) Labour is inseparable from the labourer

6) What is the main difference between labour power and labourer?

A) Labour power differs from labourer to labourer

B) All labour may not be productive

C) Labour has poor bargaining power

D) Labour is heterogeneous

E) Labour is an active factor

7) Which type of capital is described as having a durable shape and rendering services over time?

A) Social capital

B) Intangible capital

C) Human capital

D) Fixed capital

8) How can the government encourage savings according to the text?

A) Ignoring savings behavior

B) Allowing tax deductions on income saved

C) Imposing higher taxes

D) Discouraging savings

9) Who bears the risk and uncertainties of business?

A) Entrepreneurs

B) Suppliers

C) Consumers

D) Investors

10) What are the categories under which the objectives of an enterprise may be broadly classified?

- A) Financial objectives**
- B) Social objectives**
- C) Legal objectives**
- D) Physical objectives**

11) What is the technical relationship between inputs and output known as?

- A) Objectives relationship**
- B) Capital relationship**
- C) Labour relationship**
- D) Production function**

12) When does the law of variable proportion or the law of diminishing returns apply?

- A) In all production scenarios**
- B) In short-run situations**
- C) In capital formation processes**
- D) In savings and investment decisions**

13) What is the total product defined as?

- A) The total stock of real capital in a country**
- B) The quantity of fixed factors in production**
- C) The total output resulting from the efforts of all the factors of production combined together at any time**
- D) The relationship between inputs and output**

14) Which category do fixed factors of production fall under?

- A) Entrepreneur factors**
- B) Variable factors**
- C) Fixed factors**
- D) Labour factors**

15) Who is responsible for remunerating other factors of production?

- A) Capital**
- B) The government**
- C) Entrepreneurs**
- D) Labour**

16) In the stages of capital formation, what does mobilization of savings depend on?

- A) Willingness to consume**
- B) Availability of labour pool and skills**
- C) Availability of investment opportunities**
- D) Availability of financial institutions and products**

17) What is marginal product?

- A) The same output produced by different combinations of factors**
- B) The change in total product per unit change in quantity of variable factor**
- C) The total product per unit of the variable factor**
- D) The relationship between inputs and output in the long run**

18) What do constant returns to scale indicate?

- A) Inputs increase less than proportionately to output**
- B) The total product per unit of the variable factor**
- C) Inputs increase more than proportionately to output**
- D) Inputs and output increase by the same proportion**

19) When do increasing returns to scale occur?

- A) Inputs increase by the same proportion as output**
- B) Inputs increase more than proportionately to output**
- C) The relationship between inputs and output in the long run**
- D) Inputs increase less than proportionately to output**

20) What is the Law of returns to scale related to?

- A) The change in total product per unit change in quantity of variable factor**
- B) The relationship between inputs and output in the long run**
- C) Average product**
- D) The long run relationship between inputs and output in terms of changing all inputs proportionately**

21) What do iso-cost lines depict?

- A) The change in total product per unit change in quantity of variable factor**
- B) The combination of factors that minimize cost**
- C) Different combinations of factors that give the same output**
- D) Combinations of two factors that can be bought with a given outlay**

22) How can a producer determine the optimum combination of factors?

A) By analyzing the relationship between inputs and output in the long run

B) By combining isoquants and iso-cost lines

C) By finding the total product per unit of the variable factor

D) By experimenting with different combinations of factors

23) What does the tangency point of the relevant isoquant with an iso-cost line represent?

A) The same output produced by different combinations of factors

B) The least cost combination of factors

C) The total product per unit of the variable factor

D) The relationship between inputs and output in the long run

24) What is the long run relationship between inputs and output called when all inputs are changed in the same proportion?

A) Marginal product

B) Decreasing returns to scale

C) Increasing returns to scale

D) Constant returns to scale

25) What is included in accounting costs for an entrepreneur?

A) Monetary rewards for factors owned by the entrepreneur

B) Interest on the money borrowed for business

C) Revenues exceeding both explicit and implicit costs

D) Wages and salaries of workers employed by the entrepreneur

26) Which of the following is a characteristic of accounting costs?

- A) They are subjective values**
- B) They are already incurred expenses**
- C) They include the opportunity cost of entrepreneur's time**
- D) They are abnormal profits**

27) What does economic cost include in addition to accounting costs?

- A) Super normal profits**
- B) Normal profits**
- C) The implicit costs such as the value of entrepreneur's time**
- D) Explicit costs only**

28) In long-term cost calculations, what is considered as a part of opportunity cost?

- A) Labor expenses**
- B) Revenues exceeding accounting costs**
- C) Cost of raw materials**
- D) Earnings foregone**

29) How are outlay costs and opportunity costs different?

- A) Outlay costs involve financial expenditures, while opportunity costs involve subjective values**
- B) Outlay costs are never relevant in decision-making**
- C) Outlay costs are recorded in financial statements, while opportunity costs are not**
- D) Opportunity costs involve the comparison between the chosen and rejected alternatives**

30) What is the key characteristic of direct costs?

- A) They are not traceable to specific goods or services**
- B) They are charged to different jobs or products in accounting practice**
- C) They are easily identifiable in relation to a product**
- D) They have a direct relationship with a component of operation**

31) Which of the following is true about indirect costs?

- A) They are readily traceable to a particular product**
- B) They do not bear any functional relationship to production**
- C) They involve easily identifiable costs in relation to a department**
- D) They may vary with output in some definite way**

32) Why are economic costs important for businessmen when making decisions?

- A) To earn zero economic profits**
- B) To cover both accounting costs and implicit costs**
- C) To incur abnormal profits**
- D) To avoid outlay costs**

33) What makes economic costs different from accounting costs?

- A) Accounting costs are subjective values**
- B) Accounting costs include super normal profits**
- C) Accounting costs include future expenses, while economic costs involve already incurred costs**
- D) Economic costs include implicit costs such as the opportunity cost of entrepreneur's time**

34) In decision-making involving scarce resources, which cost concept is particularly useful?

- A) Opportunity costs**
- B) Accounting costs**
- C) Direct costs**
- D) Normal profits**

35) What do incremental costs refer to in a firm's decision-making process?

- A) Costs that were incurred in the past and cannot be recovered**
- B) Total cost borne by society due to a business activity**
- C) Costs that vary directly with output**
- D) Additional cost incurred from a business decision**

36) Sunk costs in a firm's decision-making process are based on:

- A) Costs that are a function of output**
- B) Costs that have not been incurred yet**
- C) Costs that cannot be recovered**
- D) Past commitments that can be easily revised**

37) Replacement costs differ from historical costs due to:

- A) Historical costs are based on future investments**
- B) Historical costs are not relevant for decision-making**
- C) Increase in prices making replacement costs higher than historical costs**
- D) They both are fixed in nature**

38) Private costs are incurred or provided for by firms and are:

- A) Costs that vary directly with output**
- B) Costs that include the environment and resources**
- C) Exclusively external to the firm**
- D) Costs that are either explicit or implicit**

39) What best describes fixed costs in a firm's operations?

- A) Costs that vary directly with output**
- B) Costs that are uncontrollable and inescapable**
- C) Costs that can be avoided easily**
- D) Costs that do not vary with output up to a certain level of activity**

40) Shut down costs in a firm's operations refer to costs that:

- A) Increase with the level of output**
- B) Vary with the size of the plant**
- C) Are inescapable and uncontrollable costs**
- D) Are fixed only when the operations are completely stopped**

41) Variable costs in a production period are costs that:

- A) Are fixed in nature**
- B) Vary directly and proportionately with output**
- C) Are the costs that cannot be avoided**
- D) Do not vary with output**

42) What makes fixed costs distinguishable from variable costs?

- A) Fixed costs vary directly with output**

- B) Variable costs do not require a fixed expenditure of funds**
- C) Variable costs are not influenced by the level of output**
- D) Fixed costs do not vary with the volume of output within a capacity level**

43) Social costs in business activities include the cost of:

- A) Environment and resources for which the firm is not required to pay a price**
- B) External costs that a firm decides to bear**
- C) Resources for which the firm is required to pay a price**
- D) Costs that are exclusive to the society**

44) How are incremental costs related to marginal cost in a firm's decision-making process?

- A) Incremental costs are the additional cost incurred by a firm due to a business decision**
- B) Incremental costs refer to costs that vary with output**
- C) Marginal cost is a sunk cost**
- D) They are the same concept**

45) What is opportunity cost concerned with?

- A) Next best alternative opportunity foregone**
- B) Additional cost incurred by a firm**
- C) Total cost that must be incurred for producing a given quantity of output**
- D) Actual expenditure of funds**

46) What do social costs include?

- A) Implicit costs**
- B) Private costs and external costs**

C) Explicit costs

D) Sunk costs

47) What is the relationship between total cost, average fixed cost, and average variable cost?

A) Total cost + Average variable cost

B) Average fixed cost + Average variable cost

C) Total cost - Average variable cost

D) Average fixed cost - Average variable cost

48) How is the average variable cost calculated?

A) Dividing total variable cost by the number of units of output produced

B) Actual cost that must be incurred for producing a given quantity of output

C) Addition made to the total cost by the production of an additional unit of output

D) Dividing total fixed cost by the number of units of output produced

49) In the long run, what does the long run cost of production represent?

A) Stair-step costs suddenly jumping to a new higher level

B) Maximum cost of producing any given level of output

C) Least possible cost of producing any given level of output

D) Fixed cost divided by the number of units of output produced

50) What is the purpose of the long run average cost curve?

A) To differentiate between internal and external economies of scale

B) To show the functional relationship between output and total cost

C) To depict the relationship between fixed and variable costs

D) To be tangent to each of the short run average cost curves

51) What evidence suggests that modern firms face an 'L-shaped' cost curve over a considerable quantity of output?

A) Empirical evidence showing changes in state of technology in the long-run

B) Tangency between LAC curve and the SAC curves

C) Availability of semi-variable costs

D) Long run is a period where output can be increased

52) What are economies of scale in production?

A) Mechanisms for decreasing output efficiency

B) Accrual of fixed costs in a production period

C) External factors affecting cost

D) Advantages obtained with large-scale production

53) What type of costs remain fixed over a certain range of output but suddenly jump to a new higher level beyond a given limit?

A) Marginal costs

B) Total costs

C) Stair-step costs

D) Semi-variable costs

54) When does an increase in scale result in diseconomies?

A) When fixed costs increase with increasing output

B) Increase in scale beyond the optimal level

- C) Internal economies of scale accrue to a firm
- D) Long run average cost curve is tangent to the SAC curves

55) What are internal economies of a firm typically a result of?

- A) Use of specialized machinery
- B) Expansion of the industry
- C) Accrual to firms due to external factors
- D) Accrual to firms due to internal efforts

56) External economies and diseconomies are dependent on:

- A) Cost of production
- B) Government regulations
- C) Internal situation of the firm
- D) Expansion of an industry

57) Which of the following is NOT an example of external economies?

- A) Economies of scale within the firm
- B) Technological external economies
- C) Cheaper raw materials and capital equipment
- D) Growth of ancillary industries

58) How do external economies benefit firms in terms of raw materials and capital equipment?

- A) Lower demand for materials and equipment
- B) Increased prices of production
- C) Competitive prices due to extensive demand
- D) Increased external diseconomies

59) External diseconomies may occur when:

- A) Transportation costs decrease**
- B) Raw material prices decrease**
- C) Government regulations are favorable**
- D) Prices of factors of production increase**

60) What can result from the growth of ancillary industries in an area?

- A) Increased pollution control costs**
- B) Decreased demand for raw materials**
- C) Decreased cost of production for firms**
- D) Reduced input prices in a competitive market**

Answerkey:-

A:- 3 , 6 , 9 , 25 , 34 , 43 , 44 , 45 , 48 , 51 , 57

B:- 8 , 10 , 12 , 17 , 19 , 22 , 23 , 26 , 32 , 41 , 46 , 47

C:- 1 , 13 , 14 , 15 , 27 , 36 , 37 , 49 , 53 , 54 , 60

D:- 2 , 4 , 5 , 7 , 11 , 16 , 18 , 20 , 21 , 24 , 28 , 29 , 30 , 31 , 33 , 35 , 38 , 39 , 40 , 42 , 50 , 52 , 55 , 56 , 58 , 59

THANK YOU!

CHAPTER - 4



PRICE DETERMINATION IN DIFFERENT MARKETS

EXTRA MCQ'S

1) What are free goods?

A) Goods that are rare and valuable

B) Goods that can only be obtained through exchange

C) Goods that are abundant in supply

D) Goods with a zero price

2) What is the significance of price in economics?

A) It is the amount of goods and services obtained in exchange for a particular thing

B) It indicates the scarcity of a good or service

C) It represents the value of a thing in relation to money

D) It reflects the sentimental value of a commodity

3) According to Ricardo, what does exchange value mean?

A) The utility of a thing to satisfy human needs

B) The universally accepted measure of economic value

C) Command over commodities in general

D) The bargaining power of buyers and sellers

4) What is the difference between "value in use" and "value in exchange"?

A) Value in exchange is subjective, while value in use is objective

B) Value in use refers to the amount of money for which a good will be exchanged

C) Value in exchange reflects the sentimental value, while value in use refers to the purchasing power

D) Value in use refers to the utility of a thing, while value in exchange refers to the amount of goods and services obtained in the market

5) In Economics, which value is primarily concerned with exchange value?

- A) Value in exchange**
- B) Sentimental value**
- C) Objective value**
- D) Monetary value**

6) How is exchange value determined in a market economy?

- A) By the trading interactions of buyers and sellers**
- B) By the utility of a product**
- C) By the scarcity and demand for a product**
- D) By sentimental considerations**

7) What is a market in economics?

- A) A physical location where goods are exchanged**
- B) A collection of buyers and sellers with the potential to trade**
- C) A place to buy and sell only new items**
- D) A formal gathering for trading goods and services**

8) How are second-hand cars often bought and sold?

- A) Through newspaper advertisements**
- B) Through formal marketplaces only**
- C) By listing them in high-end auction houses**
- D) By trading them for sentimental value**

9) What revolutionized the business world in terms of buying and selling goods?

- A) Restrictions on online shopping**

- B) Traditional marketplaces**
- C) Sentimental transactions**
- D) Online shopping by the simple click of a mouse button**

10) What elements constitute a market in economics?

- A) Buyers and sellers, a product or service, bargaining for a price, knowledge about market conditions, and one price for a product or service at a given time**
- B) Only physical locations where goods are exchanged**
- C) A single fixed price for all goods and services**
- D) Buyers and sellers only**

11) What is the main characteristic that differentiates economic goods from free goods?

- A) Economic goods do not have an opportunity cost**
- B) Free goods are scarce**
- C) Economic goods have a higher demand**
- D) Economic goods are unlimited in quantity**

12) What is the definition of a market in economic terms?

- A) A place where goods are given away for free**
- B) A place where buyers and sellers exchange goods for other goods**
- C) The value of a commodity expressed in terms of money**
- D) The set of arrangements for buying and selling a commodity or service**

13) How are markets classified based on the nature of the transaction?

- A) Into spot markets and future markets**

B) Into local, regional, national, and international markets

C) Into wholesale and retail markets

D) Into regulated and unregulated markets

14) What is the basis of classifying markets into regulated and unregulated markets?

A) The level of government intervention

B) The volume of business

C) The size of production

D) The level of competition

15) In the market classification, what does a perfectly competitive market entail?

A) A market with a single buyer and multiple sellers

B) A market with barriers to entry for new firms

C) A market with no government intervention

D) A market with identical products and numerous buyers and sellers

16) What is the relationship between total revenue and the price elasticity of demand?

A) Total revenue is inversely related to elasticity

B) Total revenue is maximum when elasticity is equal to one

C) Total revenue is maximum when elasticity is zero

D) Total revenue is constant regardless of elasticity

17) When should a competitive firm shut down according to economic theory?

A) When the total cost is less than the total variable cost

B) When the price is above the average variable cost

C) When the price is below the average variable cost

D) When the total cost exceeds the total revenue

18) Which market structure is characterized by a few sellers selling competing products to many buyers?

A) Monopoly

B) Perfect Competition

C) Oligopoly

D) Monopolistic Competition

19) Which market structure has many sellers offering identical products to many buyers?

A) Monopolistic Competition

B) Perfect Competition

C) Oligopoly

D) Duopoly

20) What is the characteristics difference between monopoly and oligopoly?

A) Number of buyers

B) Pricing strategies

C) Market share distribution

D) Nature of products

21) What is the concept of price expressing in Economics?

A) Value of land

B) Value of goods and services

C) Value of labour

D) Value of capital

22) In a free market, the determination of equilibrium price is based on the interaction between:

- A) Supply and subsidies**
- B) Demand and taxes**
- C) Government and producers**
- D) Demand and supply**

23) Why does the Government sometimes intervene in determining prices?

- A) To increase competition**
- B) To protect the interests of producers and consumers**
- C) To lower production costs**
- D) To support monopolistic practices**

24) Which factors does the Government consider while determining prices of critical inputs like petrol and fertilizers?

- A) Nature of the product only**
- B) Cost of production only**
- C) Cost of inputs and risks of business**
- D) Market demand only**

25) The demand and supply model is particularly useful for explaining:

- A) Consumer preferences**
- B) Government regulations**
- C) Production techniques**
- D) How markets work**

26) What can business firms predict using the model of demand and supply?

- A) Stock market prices**
- B) Probable effects of economic factors on equilibrium prices and quantities**
- C) Social trends**
- D) Political outcomes**

27) How can equilibrium analysis help in understanding market outcomes?

- A) By predicting natural disasters**
- B) By explaining changes in equilibrium prices and quantities**
- C) By influencing government policies**
- D) By determining labor costs**

28) Which economic factors can be analyzed using the model of demand and supply?

- A) Government intervention such as taxation and subsidies**
- B) Climate change effects**
- C) Health and wellness trends**
- D) Changes in technological innovation**

29) How can business firms use the demand and supply model to anticipate market outcomes?

- A) By applying principles underlying the interactions of demand and supply**
- B) By ignoring market trends**
- C) By accurately predicting consumer behavior**
- D) By analyzing effects of non-economic factors only**

30) In an open competitive market, what determines the equilibrium price and quantity?

- A) Interaction between demand and supply**
- B) Consumer preferences**
- C) Global economic conditions**
- D) Government regulations**

31) What is the equilibrium price also known as in the market?

- A) Price stabilization**
- B) Quantity equilibrium**
- C) Paid Services Satisfaction**
- D) Supply ceiling**

32) What characterizes a stable equilibrium in the market?

- A) Self-adjusting to restore original equilibrium**
- B) Unpredictable price movements**
- C) Supply surplus**
- D) External interventions**

33) When demand increases without a corresponding increase in supply, what happens to the equilibrium price?

- A) Get best level of paid services satisfaction**
- B) It becomes unpredictable**
- C) It stays constant**
- D) It increases**

34) If there is a simultaneous increase in both demand and supply, what can be said about the equilibrium quantity and price?

- A) Quantity and price both increase
- B) Quantity increases, price decreases
- C) Quantity and price both remain unchanged
- D) Quantity and price both decrease

35) What happens to the equilibrium price when there is a decrease in supply without any change in demand?

- A) It fluctuates randomly
- B) It increases
- C) It becomes unpredictable
- D) It decreases

36) When demand decreases and supply increases, what is the impact on the equilibrium price?

- A) It fluctuates widely
- B) It is uncertain
- C) It decreases
- D) It remains constant

37) Which case will result in a decrease in the equilibrium quantity but an uncertain change in the equilibrium price?

- A) Increase in demand and decrease in supply
- B) Increase in demand and supply
- C) Increase in supply and decrease in demand
- D) Decrease in demand and increase in supply

38) If both demand and supply decrease in the market, what happens to the equilibrium quantity?

- A) It increases

B) It fluctuates randomly

C) It remains unchanged

D) It decreases

39) What is the primary factor that leads to price movements in an open competitive market?

A) Changes in demand and supply

B) Government subsidies

C) Supply surplus

D) External trade restrictions

40) If there is an increase in demand for a particular good in the market, what is likely to happen to the equilibrium price and quantity?

A) Equilibrium price will decrease and quantity will decrease

B) Equilibrium price will decrease and quantity will increase

C) Equilibrium price will increase and quantity will increase

D) Equilibrium price and quantity will remain unchanged

41) In a perfectly competitive market, which of the following is NOT a characteristic?

A) Large number of buyers and sellers competing

B) Unlimited market power for individual firms

C) Firms are free to enter or exit the market

D) Products supplied by firms are identical

42) Which of the following best describes the product homogeneity in a perfectly competitive market?

A) Products are not perfectly substitutable

B) Sellers have preferences on whom they sell to

C) Products are differentiated to attract more customers

D) Products are identical or homogeneous

43) What is a key feature of a perfectly competitive market regarding the influence on prices?

A) Firms can individually influence prices

B) Monopolies can be formed easily

C) Buyers and sellers have perfect information

D) Sellers are able to differentiate their products

44) Which condition attached to perfect competition ensures that buyers and sellers have all relevant information for their decisions?

A) Limited market power for firms

B) Perfect knowledge of market conditions

C) Seller's ability to set prices freely

D) High transaction costs

45) In a perfectly competitive market, what role do firms play in determining prices?

A) Firms have monopoly power over prices

B) Firms have no control over prices

C) Firms can adjust prices based on demand

D) Firms set prices based on their own costs

46) Which industry is NOT commonly cited as approaching the conditions of perfect competition?

A) Precious metals (gold, silver, platinum)

B) Financial instruments (stocks, bonds)

C) Agriculture

D) Pharmaceuticals

47) Why is it essential for all firms to be price takers in a perfectly competitive market?

- A) To ensure fair competition**
- B) To maximize their profits**
- C) To prevent monopolies from forming**
- D) To accept the price determined by market forces**

48) What is one of the conditions attached to perfect competition that ensures low costs for transactions?

- A) Imperfect information**
- B) Limited market knowledge**
- C) Low transaction costs**
- D) Perfect knowledge of market conditions**

49) What happens if a seller in a perfectly competitive market tries to raise their prices above the market price?

- A) They increase their profits significantly**
- B) They lose customers**
- C) They gain monopoly control**
- D) They increase their market power**

50) Which characteristic is NOT a part of a perfectly competitive market?

- A) Perfect knowledge of market conditions**
- B) Large number of buyers and sellers competing**
- C) Products are perfectly substitutable**
- D) High level of market power for individual firms**

51) Which of the following terms can be used interchangeably with oligopoly?

- A) Monopsony
- B) Duopoly
- C) Monopoly
- D) Bilateral monopoly

52) Which of the following is not a type of oligopoly?

- A) Closed oligopoly
- B) Competitive oligopoly
- C) Undifferentiated oligopoly
- D) Monopoly

53) What is one of the main characteristics of oligopoly?

- A) Monotonous behavior
- B) Short-term focus
- C) Perfect competition
- D) Strategic interdependence

54) What type of price-leadership occurs when a low-cost firm sets the price for the market?

- A) Dominant firm price leadership
- B) Low-cost firm price leadership
- C) Collusive price leadership
- D) Competitive price leadership

55) Which economist is associated with the kinked demand curve model of oligopoly?

A) Milton Friedman

B) Adam Smith

C) Baby Hardy Saul

D) Paul A. Sweezy

56) What do you call a group of firms that explicitly agree to coordinate their activities in an oligopoly?

A) Monopsony

B) Cartel

C) Oligopsony

D) Syndicate

57) Which market form is characterized by the presence of exactly two firms?

A) Monopoly

B) Bilateral monopoly

C) Oligopoly

D) Duopoly

58) What type of oligopoly is characterized by fear of retaliation and price stickiness?

A) Closed oligopoly

B) Open oligopoly

C) Differentiated oligopoly

D) Collusive oligopoly

59) In which market form does a single buyer face many sellers?

A) Monopoly

B) Monopsony

C) Bilateral monopoly

D) Oligopsony

60) What term is used to describe a market where there is only one seller and one buyer?

A) Bilateral monopoly

B) Monopsony

C) Monopoly

D) Oligopoly

Answerkey:-

A:- 5 , 6 , 8 , 10 , 13 , 14 , 28 , 29 , 30 , 31 , 32 , 34 , 39 , 41 , 52 , 60

B:- 7 , 16 , 19 , 21 , 23 , 26 , 27 , 35 , 37 , 44 , 45 , 50 , 54 , 56

C:- 2 , 3 , 11 , 17 , 18 , 24 , 36 , 43 , 49

D:- 1 , 4 , 9 , 12 , 15 , 20 , 22 , 25 , 33 , 38 , 40 , 42 , 47 , 48 , 51 , 53 , 55 , 57 , 58 , 59

THANK YOU!

CHAPTER - 5

BUSINESS CYCLES

EXTRA MCQ'S

- 1) What are business cycles in economics?
- A) Periods of recession and financial losses
 - B) Permanent stability in economic activities
 - C) Periods of prosperity and economic growth
 - D) Recurrent fluctuations in economic activities

2) During the 1920s, what fueled the rapid growth in the UK's economy?

- A) Introduction of new trade policies**
- B) New technologies and production processes such as the assembly line**
- C) Decrease in stock market values**
- D) Increase in unemployment percentage**

3) What characterizes a period of good trade in a business cycle?

- A) Falling prices and high unemployment**
- B) Rising prices and low unemployment percentage**
- C) Recession and financial losses**
- D) Decline in Gross Domestic Product (GDP)**

4) How are business cycles defined in terms of overall business activity?

- A) Permanent stability in economic activities**
- B) Alternating expansion and contraction of overall business activity**
- C) Continuous growth in living standards**
- D) Recurrent changes in political systems**

5) What is a noteworthy characteristic of economic fluctuations within business cycles?

- A) They occur irregularly and unpredictably**
- B) They occur recurrently but not always at regular intervals**
- C) They are heavily influenced by external factors**
- D) They are always of the same length**

6) What is the primary indicator of a recessionary phase in an economy?

- A) High inflation rates**
- B) Decrease in Gross National Product (GNP)**
- C) Stable employment levels**
- D) High unemployment percentages**

7) How do countries typically alternate between periods of prosperity and economic downturns?

- A) By maintaining constant levels of Gross Domestic Product (GDP)**
- B) Through sporadic and unpredictable changes in living standards**
- C) Through continuous technological advancements**
- D) By experiencing recurrent fluctuations in economic activities**

8) Which of the following is NOT a characteristic of a period of bad trade in a business cycle?

- A) High unemployment percentages**
- B) Rising prices**
- C) Falling Gross National Product (GNP)**
- D) Periods of economic downturns**

9) What is a trade cycle composed of?

- A) Stable income levels for all citizens**
- B) Recurrent fluctuations in measures of aggregate economic activity**
- C) Continuous increase in stock market values**
- D) Permanent decline in production levels**

10) What is a characteristic of the expansion phase in the business cycle?

- A) Decrease in aggregate demand**
- B) Increase in sales**
- C) Decrease in national output**
- D) Decrease in profits**

11) In the expansion phase, what type of unemployment is almost zero?

- A) Structural**
- B) Cyclical**
- C) Frictional**
- D) Seasonal**

12) What tends to rise faster during the expansion phase of the business cycle?

- A) Prices**
- B) Investment**
- C) Consumer spending**
- D) Costs**

13) In the expansion phase, what tends to occur regarding demand for goods and services?

- A) No change**
- B) Fluctuation**
- C) Rise**
- D) Stabilization**

14) What characterizes the peak of the business cycle?

- A) Decreased input prices**
- B) Decreased output prices**
- C) Stable demand**
- D) Increased cost of living**

15) What happens to consumer's consumption expenditure towards the peak of the business cycle?

- A) It increases**
- B) It fluctuates**
- C) It remains unchanged**
- D) It decreases**

16) Which phase of the business cycle marks the end of expansion?

- A) Trough**
- B) Recovery**
- C) Expansion**
- D) Peak**

17) What is a sign of the later stages of expansion in the business cycle?

- A) Increased business confidence**
- B) Increased input prices**
- C) Increased unemployment**
- D) Decreased factor incomes**

18) What does the term "peak" refer to in the business cycle?

- A) Highest point of economic growth**

B) Lowest Point of economic growth

C) Start of economic decline

D) Recovery phase

19) What was a major factor that contributed to the causes of the Great Depression of 1930?

A) Over-indebtedness

B) Inflation

C) Greater profits

D) All of the above

20) During the Information Technology bubble burst of 2000, what led to the collapse of many dot-com companies?

A) Decrease in venture capital investment

B) Increase in government regulations

C) Over-optimism in the market

D) Introduction of innovative products

21) How did the recent global economic crisis (2008-09) originate in the US financial markets?

A) Housing bubble burst in 2006

B) Reduction in government spending

C) Increased demand for luxury goods

D) Excessive lending practices due to low interest rates

22) What was a significant impact of the collapse of the housing bubble in the US during the recent global economic crisis?

A) Higher investment in real estate

B) Decrease in the rate of inflation

C) Defaulting on mortgage payments by sub-prime households

D) Rising prices of houses

23) Which factor contributed to the recovery of economies after the Great Depression of 1930?

A) Decreased government spending

B) Lower aggregate expenditures

C) Global decrease in money supply

D) Increased money supply and government spending during World War II

24) Why did many dot-com companies experience high growth during the Information Technology bubble?

A) Limited scope of the internet market

B) Lavish internal spending

C) Continuous profitability from the start

D) Decrease in venture capitalist funding

25) What was a common strategy followed by dot-com companies to attract investors during the IT bubble?

A) Limiting brand awareness campaigns

B) Adding an "e-" prefix or ".com" to their name

C) Offering products at high initial prices

D) Conservative financial projections

26) How did the US Federal Reserve attempt to stimulate the economy during the recent global economic crisis?

A) Lower the rate of interest and increase money supply to banks

B) Tighten credit availability

C) Increase the rate of interest

D) Reduce liquidity in the banking system

27) What was a consequence of the over-optimism in the market during the Information Technology bubble burst of 2000?

A) Cautious investment behavior

B) Sustainability of dot-com companies

C) Stable growth of the internet industry

D) Development of a bubble in stock prices

28) Which component of aggregate demand is considered to be the most volatile?

A) Savings

B) Government spending

C) Net exports

D) Investment

29) How do increases in investment impact the economy?

A) Shift aggregate demand to the left

B) Lead to inflation

C) Have no effect on the economy

D) Trigger an economic expansion

30) What is a common method used to boost aggregate demand during economic booms?

A) Reduction in money supply

B) Softening of interest rates

C) Decreased government spending

D) Increased government spending and/or tax cuts

31) According to Hawtrey, what is a purely monetary phenomenon that can cause business fluctuations?

A) Unplanned changes in the supply of money

B) Technological advancements

C) Changes in consumer preferences

D) Variations in government spending

32) How do psychological factors, according to Pigou, influence business fluctuations?

A) By affecting government spending

B) By determining interest rates

C) By affecting entrepreneurs' optimism or pessimism

D) By regulating the money supply

33) According to Schumpeter's innovation theory, trade cycles occur as a result of:

A) Innovations taking place in the system from time to time

B) Decreases in population growth

C) Natural disasters

D) Excessive government regulations

34) What external factors may lead to a contraction in economic activity?

A) Reduction in taxes

B) Wars

C) Technology shocks

D) Post-war reconstruction efforts

35) How do weather cycles affect economies, particularly those dependent on agriculture?

- A) They cause instability in economies**
- B) They result in increased investment in agricultural technology**
- C) They lead to increased industrial output**
- D) They have no impact on economic stability**

36) What happens in an economy where the growth rate of population exceeds the rate of economic growth?

- A) Higher savings**
- B) Increased employment opportunities**
- C) Higher investment**
- D) Lesser demand for industrial goods and a slowdown in economic activities**

37) How are business fluctuations in one part of the world transmitted to other parts according to the context?

- A) Decreased population growth trends**
- B) Shifts in consumer preferences**
- C) Changes in government policies**
- D) Interconnected economies through trade**

38) How do business cycles influence business decisions?

- A) They determine whether a business is successful or not**
- B) They have no impact on business decisions**
- C) They impact all businesses uniformly**
- D) They require businesses to plan and set policies with respect to product, prices, and promotion**

39) What is an example of a business that is considered "cyclical" due to its close link to the rate of economic growth?

- A) Technology firms**
- B) Educational institutions**
- C) Healthcare providers**
- D) Fashion retailers**

40) Why is it important for businesses to consider the stage of the business cycle when making managerial decisions?

- A) It eliminates the need for expansion or downsizing**
- B) It ensures production operations are suited to the stage of the business cycle**
- C) It helps in determining the size of the workforce needed**
- D) It allows for erratic production levels**

41) How can businesses respond to the need to alter production levels relative to demand during different phases of the business cycle?

- A) By ignoring the business cycle completely**
- B) By having the capability to expand or rationalize production operations**
- C) By controlling the levels of input use**
- D) By always expanding production operations**

42) What type of businesses benefit during an economic downturn when their products are perceived as a cheaper alternative?

- A) Luxury car manufacturers**
- B) Low-cost airlines**
- C) High-end fashion designers**

D) Businesses offering cheaper alternatives compared to expensive products

43) How can a profit-maximizing firm manage through various stages of the business cycle?

A) By solely focusing on expansion opportunities during prosperity periods

B) By ignoring the implications of the current economic conditions

C) By consistently maintaining the same level of input use

D) By framing appropriate policies based on the nature of the economic environment

44) What do businesses need to do to overcome the effects of economic downturns and recessions in the long-term?

A) Plan and set policies with respect to product, prices, and promotion

B) Focus solely on short-term gains

C) Ignore the implications of sluggish business cycles

D) Maintain high prices for products

45) Why are economic forecasts important for businesses in decision-making?

A) They have a minimal impact on business strategies

B) They can help anticipate market changes and respond with greater alertness

C) They are never accurate in predicting economic trends

D) They are a reliable source of information for entrepreneurs

46) How can businesses benefit from understanding the phase of the business cycle an economy is in?

A) By focusing only on short-term business activities

B) By ignoring market changes

C) By preparing for changes in the direction of the economy either prior to or soon after these changes occur

D) By relying solely on entrepreneurs' intuitions

47) What is a key determinant of the success of a new product launch in relation to the stage of the business cycle?

A) Setting constant prices for the product

B) Ignoring economic conditions

C) Staying unaware of the business cycle stage

D) Considering the implications of the current economic conditions

48) What are the four distinct phases of a typical business cycle?

A) Boom, trough, expansion, peak

B) Depression, expansion, peak, trough

C) Expansion, contraction, peak, trough

D) Peak, expansion, trough, contraction

49) Which phase of the business cycle is characterized by the highest point of economic activity?

A) Trough

B) Contraction

C) Recession

D) Peak

50) What are leading indicators in economics?

A) Measurable economic factors that change after the economy starts to follow a trend

B) Variables that change after real output changes

C) Indicators that coincide with business-cycle movements

D) Measurable economic factors that change before the economy starts to follow a trend

51) How do some economists view investment spending in relation to business cycles?

A) It is considered to be the most volatile component of the aggregate demand

B) It is not affected by business cycles

C) It has no effect on the aggregate demand

D) It is the most stable component of the aggregate demand

52) What does Hawtrey believe is the primary cause of trade cycles?

A) Changes in government spending

B) Monetary policies

C) Fluctuations in aggregate effective demand

D) Unplanned changes in the supply of money

53) According to Pigou, what influences modern business activities?

A) Innovations

B) Changes in aggregate effective demand

C) Changes in government spending

D) Waves of optimism or pessimism

54) How does Schumpeter explain the occurrence of trade cycles?

- A) Innovations in the system**
- B) Fluctuations in government spending**
- C) Monetary policies**
- D) Changes in aggregate effective demand**

55) What are coincident economic indicators?

- A) Variables that change before real output changes**
- B) Factors that predict future economic trends**
- C) Indicators that change after real output changes**
- D) Measurable economic factors that coincide with business-cycle movements**

56) How can businesses benefit from understanding the phase of the business cycle?

- A) They can predict changes in government spending**
- B) They can rely solely on lagging indicators**
- C) They can better anticipate the market and respond with greater alertness**
- D) They can innovate in the system.**

57) Which of the following is not a common feature of business cycles?

- A) They have serious consequences on the well-being of society**
- B) They originate in free market economies**
- C) They occur periodically with regularity**
- D) They are caused by varying factors**

58) Which sector is more prone to the adverse effects of trade cycles compared to the agricultural sector?

- A) Capital goods industries**
- B) Service sector**
- C) Technology sector**
- D) Energy sector**

59) Business cycles are contagious and are international in character. Which event affected almost all the countries, especially the capitalist ones?

- A) Great Depression of 1930s in the USA and Great Britain**
- B) Dot-com bubble burst**
- C) World War I**
- D) Cold War**

60) Which economic variables are simultaneously affected by the repercussions of business cycles?

- A) GDP, stock market, exchange rates**
- B) National debt, exports, imports**
- C) Employment, inflation, GDP**
- D) Output, employment, investment, consumption, interest, trade, and price levels**

Answerkey:-

A:- 12 , 18 , 19 , 26 , 31 , 33 , 35 , 44 , 51 , 54 , 58 , 59

B:- 2 , 3 , 4 , 5 , 8 , 9 , 17 , 24 , 25 , 34 , 40 , 41 , 45

C:- 11 , 13 , 20 , 22 , 32 , 46 , 56

D:- 1 , 6 , 7 , 10 , 14 , 15 , 16 , 21 , 23 , 27 , 28 , 29 , 30 , 36 , 37 , 38 , 39
, 42 , 43 , 47 , 48 , 49 , 50 , 52 , 53 , 55 , 57 , 60

THANK YOU!



CHAPTER - 6

DETERMINATION OF NATIONAL INCOME

EXTRA MCQ'S

1) What is National Income Accounting?

- A) A system of household budgeting**
- B) A system of macro-economic accounts**
- C) A system of investment planning**

D) A system of individual income tracking

2) Who pioneered National Income Accounting?

A) Joan Robinson and Joseph Stiglitz

B) Paul Samuelson and Amartya Sen

C) Simon Kuznets and Richard Stone

D) John Maynard Keynes and Milton Friedman

3) How do national income accounts first define concepts?

A) By measuring the final disposal of goods and services

B) By focusing only on goods production

C) By first defining concepts and then constructing measures

D) By intuitively understanding the economy

4) What does National Accounts help us understand?

A) How to maintain a balanced budget

B) How transactions in the economy are interrelated and the working of an economy

C) How to invest in the stock market

D) How to maximize profits

5) Who is responsible for the compilation of National accounts statistics in India?

A) Ministry of Statistics and Programme Implementation

B) Ministry of Finance

C) Ministry of Commerce and Industry

D) Ministry of Agriculture

6) What is the role of State Directorates of Economics and Statistics (DESSs)?

- A) Compilation of national product data**
- B) Compilation of agricultural statistics**
- C) Compilation of State Domestic Product and other aggregates**
- D) Compilation of state-wide population data**

7) Which Nobel prize-winning economist contributed to the development of National Income Accounting?

- A) Amartya Sen**
- B) Karl Marx**
- C) Joseph Stiglitz**
- D) Simon Kuznets**

8) What purpose do National Income Accounts serve?

- A) To provide data for policy making and decision taking**
- B) To increase government spending**
- C) To organize international trade agreements**
- D) To forecast weather patterns**

9) How are transactions from the stage of production to disposal interrelated in the National Income Accounting system?

- A) They are tracked but not analyzed**
- B) They are understood and explained by the accounts**
- C) They are not considered in the accounting system**
- D) They are independent of each other**

10) Where is the Central Statistical Organisation (CSO) located in India?

- A) Ministry of Finance**
- B) Ministry of Statistics and Programme Implementation**
- C) Ministry of Agriculture**
- D) Ministry of Commerce and Industry**

11) What is the primary usefulness of national income estimates for businesses?

- A) Tracking international trade**
- B) Assessing environmental impact**
- C) Forecasting future demand for products**
- D) Calculating population growth**

12) Why are estimates of national income important for the government?

- A) Planning infrastructure projects**
- B) Formulating sector-specific development policies**
- C) Monitoring wildlife conservation efforts**
- D) Determining weather patterns**

13) How do national income statistics contribute to macroeconomic modeling and analysis?

- A) Assessing housing affordability**
- B) Forecasting natural disasters**
- C) Tracking migration patterns**
- D) Providing a quantitative basis for economic policies**

14) In what way do national income estimates help in understanding income distribution?

- A) Monitoring air quality**
- B) Comparing education levels**
- C) Estimating population density**
- D) Facilitating comparisons of income categories and inequality**

15) How do international comparisons using national income data assist in determining eligibility for loans?

- A) Evaluating income levels and living standards**
- B) Analyzing consumer spending habits**
- C) Assessing transportation efficiency**
- D) Preserving cultural heritage**

16) Why is it important to combine national income data with financial and monetary data?

- A) Studying historical artifacts**
- B) Tracking technological advancements**
- C) Analyzing archaeological sites**
- D) Guiding policies for growth and inflation**

17) Which of the following best describes the significance of sectoral contribution to National Income information?

- A) Informing sector-specific development policies to increase growth rates**
- B) Analyzing agricultural productivity**
- C) Implementing traffic regulations**
- D) Enhancing cybersecurity**

18) How do national income estimates support objective evaluations of governments' economic policies?

A) Protecting wildlife habitats

B) Providing a quantitative basis for macroeconomic analysis

C) Monitoring climate change effects

D) Improving waste management

19) What do national income estimates reveal about the structure of national income over time?

A) Identifying social media trends

B) Showing periodical variations in income composition

C) Predicting stock market trends

D) Analyzing fashion trends

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

(₹'in Crores)

Sales 3,500

Intermediate consumption 400

Closing Stock 300

Opening Stock 200

Net indirect tax 600

Mixed income 200

Consumption of fixed capital 400

Compensation of employees 400

Compute Operating Surplus.

A. ₹3200 crores

B. ₹2800 crores

C. ₹2200 crores

D. None of these.

21) Following information, relating to an economy of a country, for the current year are as under:

Particulars (In Crores `)

GDP MP. 6550

Gross Investment

(Including Business fixed investment, Residential construction investment, Public & Inventory investment). 1000

Government Purchases of goods and services 1500

Exports 400

Imports 350

GNPMP. 6600

Indirect Taxes. 200

Depreciation. 200

Find out National Income.

A. ₹4000 crores

B. ₹50 crores

C. ₹ 6,200 crores

D. None of these

22) The following information relating to a particular financial year of a country is given below:

Particulars Amount (₹ in crore)

Private final consumption expenditure 1,620

Government final consumption expenditure 750

Net domestic fixed investment 500

Export 400

Import 440

Net Factor Income from Abroad 20

Net Indirect Taxes 100

Compute the National Income of the country by using Expenditure Method.

A. ₹ 2,830 cr

B. ₹ 2,850 cr

C. ₹ 2,750 cr

D. None of these

23) On basis of following information, calculate Disposable personal income

Items (₹ in Crores)

NDP at factor cost 14900

Income from domestic product accruing to government 150

Interest on National debt 170

Transfer payment by government 60

Net private donation from abroad 30

Net factor income from abroad 80

Indirect taxes 335

Direct taxes 100

Subsidies 262

Taxes on corporate profits 222

Undistributed profits of corporations 105

- A. 15053
- B. 51035
- C. 35051
- D. None of these

24) What is Gross Domestic Product (GDP MP) a measure of?

- A) Market value of exports produced within the domestic territory
- B) Market value of imports within the domestic territory
- C) Market value of goods produced abroad
- D) Market value of all final economic goods and services

25) Net National Product at Factor Cost (NNPFC) is defined as:

- A) $NNPFC = GNP MP - Depreciation$
- B) $NNPFC = National Income = FID + NFIA$
- C) $NNPFC = Net Domestic Product at Factor Cost - Net Factor Income from Abroad$
- D) $NNPFC = GDPFC - Net Indirect Taxes$

26) What does Disposable Personal Income (DI) represent?

- A) Net Factor Income from Abroad
- B) National Income
- C) Actual current income receipt of persons from all sources, available for consumption or savings
- D) Factor income earned in domestic territory

27) In the Circular flow of income, what does the continuous interlinked phases involve?

- A) Circular production, income generation, and expenditure**
- B) Unlinked income and expenditure phases**
- C) Isolated sectors within the economy**
- D) Different sectors of the economy involved in circulation of production, income generation, and expenditure**

28) What is Net Domestic Product at Factor Cost (NDPFC) defined as?

- A) The total factor incomes earned by the factors of production**
- B) Total factor incomes earned by factors of production**
- C) GDPFC - Indirect Taxes + Subsidies**
- D) Net Domestic income - Net Factor Income from Abroad**

29) Which method entails the consolidation of the production of each industry less intermediate purchases from all other industries?

- A) Expenditure Method**
- B) Product Method or Value Added Method**
- C) Factor Cost Method**
- D) Circular Flow Method**

30) How is National Income calculated under the income method?

- A) Calculates aggregate final expenditure in an economy**
- B) Sums factor incomes paid out by production units minus transfer incomes**
- C) Calculation of Net Factor Income from Abroad**

D) Sums factor incomes paid out by all production units within the domestic territory of a country as wages, salaries, rent, interest, and profit

31) What was the significance of John Maynard Keynes's General Theory of Employment, Interest, and Money?

A) It focused primarily on microeconomics

B) It offered clear policy implications relevant to the Great Depression

C) It emphasized the importance of supply-side policies

D) It ignored the relationship between consumption and income

32) In the circular flow of income concept, which sectors are included in the four-sector model?

A) Household and business sectors

B) Household, business, and government sectors

C) Household and government sectors

D) Business and foreign sectors

33) What concept did Keynes introduce to explain the relationship between consumption and income?

A) Aggregate supply

B) Liquidity preference

C) Rational expectations

D) Monetarism

34) How did the classical economists of the time respond to the Great Depression?

A) They emphasized the importance of monetary policy

B) They proposed government spending as a solution without a theoretical basis

C) They introduced the concept of liquidity preference

D) They suggested reducing aggregate demand to combat unemployment

35) What component of Keynes's General Theory explains how shocks to aggregate demand can amplify and lead to larger shifts in output?

A) Monetarism

B) Supply-side economics

C) Liquidity preference

D) Multiplier effect

36) According to Keynes, what is liquidity preference?

A) The demand for goods and services

B) The desire to save money

C) The preference for liquid assets over illiquid assets

D) The demand for money

37) What model consists of the household and the business sectors in the Keynesian theory of income determination?

A) Four-sector model

B) Three-sector model

C) Single-sector model

D) Two-sector model

38) What revolutionized the history of modern macroeconomics in 1936?

A) The Great Depression

B) The increase in interest rates

C) The decline in aggregate demand

D) The publication of Keynes's General Theory of Employment, Interest, and Money

39) According to the Keynesian theory, national income depends on:

A) savings rate

B) government expenditure only

C) private consumption

D) aggregate effective demand

40) In the Keynesian theory, what happens when the aggregate effective demand falls short of full employment output?

A) Inflation occurs

B) Unemployment results

C) Recession occurs

D) Wages increase

41) When the aggregate effective demand exceeds the economy's full employment output according to Keynesian theory, it leads to:

A) Reduced government spending

B) Inflation

C) Deflation

D) Economic growth

42) The gap between actual and optimum potential output in the economy due to insufficient aggregate effective demand would result in:

- A) Unemployment
- B) Increased savings
- C) Stable employment
- D) Increased investments

43) In the absence of government stabilization policies, what could be a consequence of unstable investments?

- A) Sustainable economic growth
- B) Higher consumer spending
- C) Decreased taxes
- D) Unstable incomes

44) How can the government counteract the effects of shifts in investment according to Keynesian theory?

- A) Increasing private consumption
- B) Implementing trade tariffs
- C) Adjusting interest rates
- D) Adjusting government expenditure and taxes

45) According to Keynesian theory, what can appropriate changes in fiscal policy help achieve?

- A) Decrease in aggregate supply
- B) Increased foreign investments
- C) Stable prices
- D) Constant autonomous expenditure

46) What effect does a large number of people remaining unemployed have on society and the government according to Keynesian theory?

- A) Undesirable and a cause of great concern

- B) Increased savings rate
- C) Reduced government debt
- D) Decreased government spending

47) In the Keynesian model, what does it signify when equilibrium aggregate output is not the same as full employment aggregate output?

- A) Underutilization of resources
- B) Reduced aggregate demand
- C) Optimal efficiency
- D) Full employment situation

48) What impact do appropriate changes in government spending and taxes have on balancing the economy according to Keynesian theory?

- A) Increased inflation
- B) Decreased savings
- C) Improved productivity
- D) Keeping autonomous expenditure constant in the face of undesirable investment changes

49) In the two-sector economy, what is the equation for equilibrium national income?

- A) $Y = C + I + G$
- B) $Y = C + G$
- C) $Y = C + (X - M)$
- D) $Y = C + I$

50) What does the consumption function $C = a + bY$ represent?

- A) The relationship between consumption and savings

B) The relationship between consumption and disposable income

C) The relationship between consumption and government spending

D) The relationship between consumption and investment

51) What is the Marginal Propensity to Consume (MPC)?

A) The increase in consumption per unit increase in income

B) The increase in government spending per unit increase in income

C) The increase in consumption per unit increase in investment

D) The increase in investment per unit increase in income

52) Which sector's demand contributes to aggregate demands in the three-sector model of a closed economy?

A) Foreign sector

B) Government sector

C) Business sector

D) Household sector

53) In the four-sector model, what equation represents equilibrium national income?

A) $Y = C + G$

B) $Y = C + I + G$

C) $Y = C + I$

D) $Y = C + I + G + (X-M)$

54) The value of the investment multiplier is influenced by which factor?

- A) The marginal propensity to consume
- B) The level of the marginal propensity to consume
- C) The level of imports
- D) The level of government spending

55) How are net exports calculated in the context of equilibrium income determination?

- A) Discounting imports from exports
- B) Subtracting imports from exports
- C) Adding imports to exports
- D) Ignoring trade balance

56) What effect does an increase in exports have on an economy's equilibrium income, according to the context?

- A) Decrease in equilibrium income
- B) Decrease in investment
- C) Increase in government spending
- D) Increase in equilibrium income

57) Suppose $C = 100 + 0.80(Y - T + TR)$; $I = 200$; $T = 25 + 0.1Y$; $TR = 50$; $G = 100$

Find out equilibrium level of Income?

- A. 1500
- B. 5100
- C. 1228
- D. None of these

58) If the consumption function is $C = 250 + 0.80 Y$ and $I = 300$. Find out equilibrium level of S ?

- A. 2750
- B. 2450
- C. 4250
- D. None of these

59) An economy is characterised by the following equation-

Consumption $C = 60 + 0.9Y_d$

Investment $I = 10$

Government expenditure $G = 10$

Tax $T = 0$

Exports $X = 20$

Imports $M = 10 + 0.05 Y$

What is the equilibrium income?

Calculate foreign trade multiplier.

- A. 9.89
- B. 12.89
- C. 98.89
- D. None of these

60) 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.

Answerkey :-

A:- 5 , 8 , 15 17 , 28 , 42 , 46 , 51

B:- 1 , 4 , 9 , 10 , 12 , 18 , 19 , 25 , 29 , 32 , 33 , 34 , 40 , 41 , 50 , 53 , 54 , 55

C:- 2 , 3 , 6 , 11 , 21 , 22 , 26 , 60

D:- 7 , 13 , 14 , 16 , 20 , 23 , 24 , 27 , 30 , 31 , 35 , 36 , 37 , 38 , 39 , 43 , 44 , 45 , 47 , 48 , 49 , 52 , 56 , 57 , 58 , 59

THANK YOU!

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CHAPTER - 7

PUBLIC FINANCE

EXTRA MCQ'S

- 1) What is the primary goal of the state?
- A) To minimize government intervention in the economy
 - B) To promote the general welfare of the society
 - C) To create monopolies in key industries
 - D) To maximize profits for businesses

2) What are some of the operations that governments are involved in?

- A) Eliminating all rules and regulations**
- B) Consuming goods and services**
- C) Employing only private producers**
- D) Establishing rules and regulations**

3) Why is economic growth considered one of the main macroeconomic goals?

- A) To reduce standard of living**
- B) To decrease population**
- C) To increase government debt**
- D) To improve the quality of life**

4) How does high levels of employment contribute to economic prosperity?

- A) By causing inflation**
- B) By increasing purchasing power**
- C) By reducing output**
- D) By decreasing income levels**

5) What is the effect of inflation on real incomes and purchasing power?

- A) Increase in purchasing power**
- B) Increase in real incomes**
- C) Reduction in output**
- D) Reduction in real incomes**

6) Why does the government intervene in the economy?

- A) To maximize government debt**
- B) To create economic instability**
- C) To improve the wellbeing of individuals and households**
- D) To eliminate economic activity**

7) What can deflation potentially lead to?

- A) Stable prices**
- B) Increase in employment**
- C) Increase in purchasing power**
- D) Recession or depression**

8) What is the purpose of government intervention in the economy?

- A) To reduce economic activity**
- B) To eliminate private producers**
- C) To create monopolies**
- D) To improve the wellbeing of individuals and households**

9) What do stable price levels help an economy avoid?

- A) Prolonged inflation and deflation**
- B) Unstable government debt**
- C) Decrease in standard of living**
- D) Economic growth**

10) What is the belief behind government intervention in the economy?

- A) To eliminate all economic functions of the government**
- B) To decrease economic activity**

- C) To worsen the wellbeing of individuals and households
- D) To improve the wellbeing of individuals and households

11) What is resource allocation in an economy concerned with?

- A) Minimizing consumer sovereignty
- B) Allocating limited resources among various uses
- C) Generating waste and inefficiency
- D) Ensuring unlimited wants of society members are met

12) Why is resource allocation considered a critical problem in economics?

- A) Because of perfect competition in all markets
- B) Resources are limited in supply while wants are unlimited
- C) Due to the presence of missing markets
- D) All resources have the same alternative uses

13) Which mechanism characterizes the resource allocation in the private sector?

- A) Market supply and demand and price mechanism
- B) Producer profit motives only
- C) Government legislation
- D) Consumer welfare maximization

14) Allocative efficiency aims to achieve what in an economy?

- A) Producing goods and services without market failures
- B) Minimizing the value to the society
- C) Maximizing waste and inefficiency
- D) Achieving the largest possible output from resources and technology

15) Why do markets fail to efficiently allocate resources?

- A) Perfect competition in all markets**
- B) Equal distribution of income and wealth**
- C) The presence of factor immobility**
- D) Complete information availability**

16) What is market failure?

- A) There is underproduction of goods**
- B) There is overproduction of goods**
- C) The market is working perfectly**
- D) The market does not function as it should**

17) Complete market failure occurs when:

- A) Economic welfare is maximized**
- B) There are missing markets**
- C) There is overproduction of goods**
- D) The market is working efficiently**

18) When does partial market failure happen?

- A) When there is overproduction of goods**
- B) When the market produces the wrong quantity of a product or at the wrong price**
- C) When there is underproduction of goods**
- D) When the market functions correctly**

19) What types of products are associated with complete market failure?

A) Luxury goods

B) Private goods only

C) Public goods only

D) Inferior goods

20) How does market failure impact economic welfare?

A) It results in loss of economic welfare

B) None of the above

C) It has no effect on economic welfare

D) It minimizes economic welfare

21) What is the main characteristic of partial market failure?

A) Correct pricing of goods

B) Producing the wrong quantity of a product or at the wrong price

C) Overproduction of goods

D) Underproduction of goods

22) In which situation would partial market failure occur?

A) When the market fails completely

B) When the market produces the wrong quantity of a product or at the wrong price

C) When there is a balance between supply and demand

D) When the market functions efficiently

23) What concept best describes a situation where the market does not supply products that are wanted by people?

A) Partial market failure

B) Economic welfare maximization

C) Complete market failure

D) Underproduction

24) What leads to market failure in the allocation of resources?

A) Misallocation of resources due to wrong quantity or price of goods

B) Overproduction of goods

C) Underproduction of goods

D) Complete market success

25) What is the outcome of market failure with respect to societal resources?

A) None of the above

B) Misallocation of resources

C) Optimal allocation

D) Balanced allocation

26) What are externalities in the economics?

A) Costs or benefits borne by individuals directly involved in a transaction

B) Costs or benefits not reflected in free market prices

C) Costs or benefits reflected in firm's income statements

D) Costs or benefits reflected in free market prices

27) When does a negative production externality occur in consumption?

A) When a firm offers training to its employees

B) When a factory increases its production output

C) When pollution of a river affects fish output

D) When individuals switch from ordinary to organic vegetables

28) Which of the following is an example of positive production externality received in consumption?

A) Consumption of health club services by firm employees

B) Pollution of a river affecting fish output

C) Smoking cigarettes in public places

D) A firm offering training to its employees

29) What are negative consumption externalities?

A) Benefits conferred on others by production activities

B) Benefits conferred on others by consumption activities

C) Costs borne by individuals directly involved in a transaction

D) Costs imposed on others by consumption activities

30) Which of the following is an example of negative consumption externality affecting production?

A) Pollution of a river affecting fish output

B) Enjoyment of an attractive garden by passersby

C) Factory discharging untreated waste water into a river

D) Passive smoking caused by smoking cigarettes in a public place

31) What is the main purpose of a government budget?

A) To increase regional disparities

B) To regulate economic priorities and ensure social welfare

C) To maximize government revenue

D) To eliminate economic fluctuations

32) Why does the government need to reallocate resources according to its declared priorities?

- A) To ensure an increase in regional disparities**
- B) To maintain social welfare**
- C) To create economic fluctuations in the market**
- D) To redistribute income and wealth**

33) What does a government budget include?

- A) Budgeted estimates for the next fiscal year**
- B) Projections for the economy and all its sectors**
- C) Estimates of government's revenues only**
- D) Estimates of proposed expenditure and proposed means of financing**

34) Apart from the union budget, which other bodies have their budgetary processes mentioned in the text?

- A) Small businesses**
- B) Non-governmental organizations**
- C) Private companies**
- D) State and local bodies**

35) How does a budget help in reducing economic fluctuations?

- A) By maximizing government revenue**
- B) By redistributing income and wealth**
- C) By bringing stability**
- D) By providing unlimited resources**

36) What is the purpose of budgeting?

- A) To eliminate social welfare**
- B) To reduce government revenue**
- C) To ensure maximum social welfare**
- D) To promote economic fluctuations**

37) What is the budget described?

- A) Document showing where the money goes to and comes from**
- B) Detailed analysis of economic priorities**
- C) Document consolidating revenues for the fiscal year**
- D) Statement of government expenses only**

38) Why is the budget considered a powerful policy instrument for the government?

- A) To promote regional disparities**
- B) To regulate and restructure economic priorities**
- C) To increase economic fluctuations**
- D) To ensure maximum social welfare**

39) What is the focus of the unit?

- A) Non-governmental organizations budgeting**
- B) International budgetary processes**
- C) Private company budgeting**
- D) Union budget only**

40) What does the budget ensure with regard to income and wealth?

- A) Stagnation of income and wealth**
- B) Redistribution of income and wealth**

C) Maximization of income and wealth

D) Elimination of income and wealth

41) What is the process known as when the speaker of Lok Sabha puts all outstanding demands for grants to vote, regardless of whether they were discussed or not?

A) Axe

B) Sickle

C) Guillotine

D) Execution

42) In the Indian parliament, what type of motion seeks to reduce the sums requested by the government?

A) Loose Motion

B) Shear Motion

C) Trim Motion

D) Cut Motion

43) Why are motions for reduction to demands for grants made?

A) To provide more funds for projects

B) To delay the budget approval process

C) To reduce the sums sought by the government

D) To decrease transparency

44) What type of motions are specifically aimed at reducing the amounts asked for by the government in the demands for grants?

A) Cut Motions

B) Add Motions

C) Increase Motions

D) Extend Motions

45) What is the main purpose of the 'Guillotine' process in the Indian parliament?

A) Expedite the budget approval process

B) Eliminate the need for budget reviews

C) Improve transparency in government spending

D) Ensure thorough examination of demands for grants

46) What are some of the economic goals that governments pursue through various policies?

A) Reduction of healthcare costs

B) Rapid economic growth

C) Agricultural growth

D) Expansion of military capabilities

47) Which one of the following is not considered an important tool in the budgetary policy for accomplishing economic goals?

A) Public debt

B) Privatization of state-owned enterprises

C) Deficit financing to bridge the gap between public receipts and payments

D) Public expenditure

48) How is fiscal policy defined?

A) Policy of using taxation, public expenditure, and public borrowing to influence economic activity and aggregate demand

B) Policy of maintaining a constant currency exchange rate

- C) Policy of regulating international trade activities**
- D) Policy of manipulating interest rates by the government**

49) What type of policy is fiscal policy considered in the influencing economic activity?

- A) Exchange rate policy**
- B) Monetary policy**
- C) Supply-side policy**
- D) Demand-side policy**

50) According to classical economists, why did they advocate for limited government intervention in the economy?

- A) To provide subsidies to local businesses**
- B) To ensure full employment in the economy**
- C) To reduce public debt through borrowings**
- D) To stabilize international trade**

51) When was the significance of fiscal policy widely recognized due to the prevailing economic conditions?

- A) During the 19th century**
- B) Before the Great Depression of 1929**
- C) After the Great Depression of 1929**
- D) During the Industrial Revolution**

52) Who advocated for the increase in government spending as a solution to combating recessionary forces in the economy in the 1930s?

- A) Adam Smith**
- B) Karl Marx**
- C) John Maynard Keynes**

D) John Locke

53) Why did many countries prefer to have a more active fiscal policy after the global financial crisis and recession?

- A) To combat recessionary forces**
- B) To promote privatization of public services**
- C) To increase individual savings**
- D) To reduce inflation**

54) What is the primary role of fiscal policy in influencing economic activity?

- A) Regulating environmental pollution**
- B) Stabilizing international trade**
- C) Controlling population growth**
- D) Influencing both the pattern of economic activity and level of aggregate demand, output, and employment**

55) Which economic concept supports the idea of market mechanisms making the economy self-adjusting according to classical economists?

- A) Gross Domestic Product**
- B) Production Possibility Frontier**
- C) Phillips Curve**
- D) Marginal Utility**

56) Which of the following describes the concept of crowding out in economics?

- A) Crowding out typically strengthens the effectiveness of expansionary fiscal policy**
- B) When government spending increases, private sector investment and consumption also increase**

C) Government borrowing in the credit market leads to lower interest rates

D) Crowding out occurs when government spending substitutes private sector spending

57) During a recession phase, how does the government usually respond to stimulate aggregate demand?

A) Increasing interest rates to encourage savings

B) Crowding out private spending to boost government expenditure

C) Encouraging private sector investment by reducing taxes

D) Implementing contractionary fiscal policy to reduce government spending

58) What is the primary goal of contractionary fiscal policy during an inflationary phase?

A) Encouraging private consumption through tax cuts

B) Stimulating private sector investment through low interest rates

C) Creating inflationary gaps to encourage higher disposable incomes

D) Decreasing aggregate expenditures and demand

59) How does the government typically finance a budget deficit caused by expansionary fiscal policy?

A) Borrowing from the credit market by issuing bonds

B) Asking for international aid and loans

C) Selling national assets to private investors

D) Decreasing the sales of government bonds

60) During a recession, why is crowding out less likely to occur?

A) Interest rates are low, encouraging private consumption

B) Private sector investment is minimal, leading to insignificant private spending to be crowded out

C) Government spending is typically reduced during recessions

D) The government borrows extensively from the market without affecting interest rates

Answerkey :-

A:- 9 , 13 , 20 , 24 , 28 , 37 , 44 , 45 , 48 , 53 , 59

B:- 1 , 4 , 11 , 12 , 17 , 18 , 21 , 22 , 25 , 26 , 31 , 38 , 40 , 46 , 47 , 50 , 60

C:- 6 , 15 , 19 , 23 , 27 , 35 , 36 , 41 , 43 , 51 , 52 , 57

D:- 2 , 3 , 5 , 7 , 8 , 10 , 14 , 16 , 29 , 30 , 32 , 33 , 34 , 39 , 42 , 49 , 54 , 55 , 56 , 58

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CHAPTER - 8

MONEY MARKET

EXTRA MCQ'S

1) What are the three main functions of money?

A) A unit of energy, a store of memories, a medium of exchange

B) A medium of communication, a unit of weight, a store of entertainment

C) A medium of transportation, a unit of time, a store of food

D) A unit of account, a medium of exchange, a store of value

2) In a barter economy without money, what is a potential challenge?

- A) Overabundance of goods leading to excess inventory**
- B) Difficulty in finding a market to sell goods**
- C) Unstable prices due to lack of a unit of account**
- D) Specialization being hindered by the need to find specific trading partners**

3) How does the presence of money in a market simplify transactions?

- A) By ensuring price stability through direct exchange of goods**
- B) By requiring specific people to trade with for each transaction**
- C) By promoting individual bartering for goods and services**
- D) By enabling a common medium of exchange for goods and services**

4) Which characteristic of money does the emphasize in relation to its usability in transactions?

- A) Limited issuance by a central authority**
- B) Ability to have intrinsic value**
- C) Acceptance as a common medium of exchange**
- D) Ease of transportation**

5) From the provided examples, which historical items were used as a form of money?

- A) Cowry shells, barley, and gold**
- B) Wheat, rice, and millet**
- C) Seashells, rocks, and wood**

D) Diamonds, pearls, and rubies

6) What is a liquidity trap in economics?

A) A situation where people are willing to spend more money

B) A situation where expansionary monetary policy does not increase interest rate, income, or stimulate economic growth

C) A situation where holding bonds is preferred over holding cash

D) A situation where deflation increases the value of money

7) Why does a liquidity trap occur?

A) Due to low money supply

B) Due to excessive government spending

C) Due to high interest rates

D) Due to fear of adverse events like deflation or war

8) In a liquidity trap, what happens to the general public's preference for holding money?

A) They prefer to invest in stocks

B) They are willing to spend money on consumer goods

C) They seek higher interest rates on their cash holdings

D) They are prepared to hold whatever amount of money is supplied, at a given rate of interest

9) At what interest rate does a liquidity trap typically occur?

A) when the interest rate is high and rising

B) when the interest rate is at its peak

C) when the interest rate is zero

D) when the interest rate is negative

10) What happens to the speculative demand for money in a liquidity trap?

- A) It becomes more volatile**
- B) It becomes parallel to the Y axis**
- C) It decreases as interest rates decrease**
- D) It becomes perfectly elastic with respect to interest rate**

11) Why does the speculative money demand curve become parallel to the X axis in a liquidity trap?

- A) Due to fear of inflation**
- B) Due to the opportunity cost of holding money being zero**
- C) Due to government restrictions on cash holdings**
- D) Due to fear of deflation**

12) How does a liquidity trap affect the effectiveness of monetary policy?

- A) It encourages investment in the stock market**
- B) It leads to increased inflation**
- C) It renders monetary policy powerless to affect interest rates and income**
- D) It enhances the impact of monetary policy**

13) What is the primary reason people prefer to hoard money in a liquidity trap?

- A) To invest in real estate**
- B) To avoid spending money**
- C) The opportunity cost of holding money is zero**
- D) To take advantage of high interest rates**

14) Why might excess funds not be converted into new investment in a liquidity trap?

- A) Due to the ineffectiveness of monetary policy**
- B) Due to government regulations on investment**
- C) Due to high interest rates on bonds**
- D) Due to low supply of bonds**

15) How is the liquidity trap concept related to ineffective monetary policy?

- A) In a liquidity trap, monetary policy is synonymous with ineffective policy**
- B) A liquidity trap indicates a lack of government intervention**
- C) In a liquidity trap, monetary policy effectiveness increases**
- D) In a liquidity trap, fiscal policy takes precedence**

16) The transaction motive for holding cash is directly related to

- A) the prevailing economic conditions only**
- B) personal characteristics of the individual only**
- C) none of the above**
- D) both income and prevailing economic conditions**

17) The precautionary motive for holding cash is influenced by

- A) prevailing economic conditions only**
- B) personal characteristics such as optimism only**
- C) the size of income and political conditions only**
- D) all of the above**

18) The speculative motive for holding cash relates to

- A) expecting a rise in interest rate
- B) exploiting any attractive investment opportunity
- C) the desire to hold government bonds
- D) the price level

19) When the current rate of interest is lower than the critical rate of interest, a typical wealth-holder would hold in his asset portfolio

- A) both government bonds and cash
- B) either government bonds or cash
- C) only government bonds
- D) corporate bonds

20) In a liquidity trap, the demand to hold money in liquid form approaches

- A) the critical rate of interest
- B) the speculative demand
- C) a fixed amount
- D) zero

21) Why is the empirical analysis of the money supply important?

- A) It has no significance for monetary policy
- B) It hinders economic growth
- C) It facilitates analysis of fiscal developments
- D) It leads to inflation

22) How does measuring money supply aid in understanding monetary developments?

- A) By determining government debt levels

B) By assessing consumer spending habits

C) By analyzing GDP trends

D) By studying money growth causes

23) What role does measuring money supply play in monetary policy?

A) It ensures consistent exchange rates

B) It has no impact on monetary policy

C) It affects only stock market performance

D) It helps in stabilizing price levels

24) What are the two primary sources of money supply in an economy?

A) Private savings and pension funds

B) Central bank and commercial banking system

C) Stock market investments and foreign exchange reserves

D) Real estate transactions and insurance premiums

25) In modern economies, what is the term used for the currency issued exclusively by the sovereign or a central bank as legal tender?

A) Fiat money

B) Virtual currency

C) Digital money

D) Credit money

26) Which asset is primarily mentioned as backing the value of fiat money issued by the central bank?

A) Equity shares

B) Real estate properties

C) Treasury bills

D) Gold and foreign exchange reserves

27) What is the term used for the money created by commercial banks in the process of borrowing and lending transactions with the public?

A) Metallic money

B) Digital money

C) Credit money

D) High-powered money

28) What term is used to describe the money supply constituted by high-powered money and credit money?

A) Real money

B) Crypto money

C) Total money stock

D) Sovereign money

29) With the evolution of money and the payments system, what is the next milestone in monetary history?

A) Adoption of the Credit Money system

B) Return to the Commodity Currency system

C) Expansion of the Metallic Currency system

D) Introduction of Digital Currency

30) What term is used in the context to describe the digital form of legal tender issued by a central bank that is exchangeable at par with the existing currency?

A) Central Bank Digital Currency (CBDC)

B) Virtual currency

C) Sovereign money

D) Credit money

31) What is the unique feature of Central Bank Digital Currencies (CBDCs) mentioned in the context in terms of their value?

A) They are not accepted as legal tender

B) They are exchangeable at par with existing currency

C) They are exchangeable at a premium

D) They have no backing assets

32) What is the stance of the Reserve Bank of India (RBI) towards Crypto currencies as of now?

A) Not legally recognized as currency

B) Under consideration for future use

C) Digitally issued by the RBI

D) Fully recognized as legal tender

33) What is another name for Reserve money?

A) M2

B) Narrow money

C) Broad money

D) High powered money

34) The money multiplier is influenced by all of the following factors EXCEPT:

A) Required reserve ratio

B) Behaviour of the public

C) Currency ratio

D) Excess reserves ratio of banks

35) When excess reserves increase in commercial banks, what is the impact on loans and deposits?

A) No impact on loans and increase in deposits

B) Increase in loans and decrease in deposits

C) No impact on loans and deposits

D) Decrease in loans and increase in deposits

36) How does a decrease in the required reserve ratio affect demand deposits' multiple expansions?

A) Increases the multiple expansions

B) Leads to higher interest rates

C) Reduces the total money stock

D) No impact on the multiple expansions

37) What is the relationship between excess reserves ratio and market interest rate?

A) Exponentially related

B) Linearly related

C) Negatively related

D) No relationship

38) What effect does an increase in the time deposit-demand deposit ratio have on multiple deposit expansion?

A) Leads to a decrease in monetary expansion

B) Reduces the supply of free reserves for banks

C) Increases multiple deposit expansion

D) No effect on multiple deposit expansion

39) When the Reserve Bank lends to the government under WMA/OD, what is the result on the excess reserves of commercial banks?

- A) Decrease in excess reserves**
- B) Leads to excess loans**
- C) Increase in excess reserves**
- D) No impact on excess reserves**

40) What happens if the currency ratio increases in the money multiplier approach?

- A) Reduced liquidity in the economy**
- B) No impact on the money supply**
- C) Increases the money supply**
- D) Leads to inflation**

41) Which of the following is a quantitative tool used by the RBI to impact money supply in the entire economy?

- A) Market Stabilisation Scheme**
- B) Selective credit control**
- C) Open Market Operations**
- D) Margin requirements**

42) How does the Reserve Ratio impact banks?

- A) Reserve Ratio is of two types: Liquidity Adjustment Facility and Market Stabilisation Scheme.**
- B) Banks are required to set aside a certain percentage of cash reserves or RBI approved assets.**
- C) Statutory Liquidity Ratio (SLR) must be set aside in cash with the RBI.**

D) It allows banks to lend the reserved amount to anyone.

43) What is the objective of Open Market Operations conducted by the RBI?

- A) To control interest rates in the housing sector.**
- B) To fix the exchange rate of the domestic currency.**
- C) To increase liquidity by selling government securities.**
- D) To control inflation by buying government securities**

44) How does the Repo Rate differ from the Reverse Repo Rate?

- A) Repo Rate is used to borrow long term funds, whereas Reverse Repo Rate is for short-term borrowing.**
- B) Reverse Repo Rate is always higher than the Repo Rate.**
- C) Repo rate is paid by banks to RBI, while Reverse Repo Rate is paid by RBI to banks.**
- D) Repo Rate is linked to the Cash Reserve Ratio, while Reverse Repo Rate is linked to the Market Stabilisation Scheme.**

45) What is the purpose of Liquidity Adjustment Facility (LAF)?

- A) To provide long-term funds to banks at a fixed interest rate.**
- B) To determine the margin requirements for collateral against borrowing.**
- C) To regulate the exchange rate between different countries.**
- D) To control the money supply by adjusting liquidity**

46) Which rate is used by the RBI to lend long-term funds to banks?

- A) Market Stabilisation Facility Rate**
- B) Repo Rate**
- C) Marginal Standing Facility Rate**

D) Bank Rate

47) How does the RBI impact the borrowing behavior of customers through margin requirements?

- A) By raising margin requirements, customers will be able to borrow less.**
- B) By providing incentives for borrowing more money.**
- C) By allowing banks to lend to speculative businesses.**
- D) By lowering the interest rate on loans.**

48) What is the purpose of the Market Stabilisation Scheme (MSS)?

- A) To convince banks to lend to certain sectors.**
- B) To establish control over money supply in the economy.**
- C) To regulate the repo rate set by the banks.**
- D) To control inflation in the automobile sector.**

49) Which of the following is a qualitative tool used by the RBI?

- A) Reserve Ratio**
- B) Open Market Operations**
- C) Repo Rate**
- D) Moral Suasion**

50) How does the Statutory Liquidity Ratio (SLR) differ from the Cash Reserve Ratio (CRR)?

- A) SLR must be set aside in cash with the RBI, while CRR can be held in liquid assets.**
- B) Both ratios have the same impact on the money supply in the economy.**

C) CRR is the rate at which banks borrow from RBI, while SLR is the rate at which banks lend to the government.

D) SLR contains liquid assets like gold or government securities, while CRR is required to be kept in cash with the RBI.

51) Which of the following is NOT a commonly pursued objective of monetary policy by central banks across the world?

- A) Maintenance of price stability**
- B) Achieving balance of payments equilibrium**
- C) Promotion of economic growth**
- D) Generating wealth effects**

52) How does a contractionary monetary policy, induced increase in interest rates affect firms and households?

- A) It leads to an increase in investments**
- B) It leads to a cut back on investment and consumption**
- C) It leads to an increase in consumption**
- D) It decreases the cost of capital**

53) Which channel of monetary transmission mechanism involves the impact of appreciation/depreciation of domestic currency on net exports?

- A) Interest rate channel**
- B) None of the above**
- C) Exchange rate channel**
- D) Quantum channel**

54) Which of the following is true about the Statutory Liquidity Ratio (SLR)?

A) It refers to the financial accommodation provided by RBI to commercial banks

B) It is a tool used directly by the central bank to influence money market conditions

C) It is the percentage of total demand and time liabilities that banks must maintain in cash, gold or approved securities

D) It is the fraction of the total net demand and time liabilities (NDTL) that a bank must maintain in cash with RBI

55) What is the main function of the Marginal Standing Facility (MSF)?

A) To conduct market operations by selling/purchasing Government securities

B) To borrow additional overnight money from the central bank by utilizing SLR portfolio

C) To provide additional overnight money to RBI

D) To adjust rupee liquidity conditions in the market on a regular basis

56) What does the Market Stabilisation Scheme (MSS) involve?

A) Buying or selling of Government securities by the central bank to adjust liquidity

B) Determination of policy rate by the Monetary Policy Committee

C) Borrowing by RBI from the Government of India

D) Issuing treasury bills/dated securities by the Government of India by borrowing from RBI

57) What is the primary objective of the Monetary Policy Committee (MPC)?

A) Keeping the Consumer Price Index between 2 to 6 percent

B) Buying or selling Government securities for market stabilization

C) Borrowing funds through repurchase agreements

D) Control inflation target through a majority vote by experts

58) What is the role of OMOs conducted by the Reserve Bank of India?

A) Regular market operations through sale/purchase of Government securities

B) Determining the policy rate

C) Setting the fixed repo rate quoted for sovereign securities

D) Adjusting rupee liquidity conditions in the market

59) What is the key agreement between the Government of India and the Reserve Bank of India with regard to inflation?

A) Providing additional overnight money through the Marginal Standing Facility

B) Keeping the Consumer Price Index inflation rate between 2 to 6 percent

C) Conducting market operations through OMOs

D) Determining the operating target for monetary policy

60) In the context of the Monetary Policy Framework, what is the main tool used by a central bank to influence money market and credit conditions?

A) Bank Rate

B) Liquidity Adjustment Facility (LAF)

C) Cash Reserve Ratio (CRR)

D) Reverse Repo

Answerkey :-

A:- 5 , 14 , 15 , 18 , 25 , 30 , 32 , 34 , 35 , 36 , 40 , 47 , 51 , 57 , 58

B:- 6 , 11 , 20 , 24 , 31 , 42 , 48 , 52 , 55 , 59 , 60

C:- 4 , 9 , 12 , 13 , 16 , 27 , 28 , 41 , 44 , 53 , 54

D:- 1 , 2 , 3 , 7 , 8 , 10 , 17 , 19 , 21 , 22 , 23 , 26 , 29 , 33 , 37 , 38 , 39 , 43 , 45 , 46 , 49 , 50 , 56

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CHAPTER - 9

INTERNATIONAL TRADE

EXTRA MCQ'S

1) Which of the following is NOT a benefit of international trade?

- A) Providing access to new markets and resources**
- B) Strengthening bonds between nations**
- C) Increasing likelihood of domestic monopolies**
- D) Stimulating economic efficiency and growth**

2) How does international trade contribute to the efficiency in using resources?

- A) By restricting innovation**
- B) By decreasing the productivity gains**
- C) By reducing efficiency in the use of resources**
- D) By deploying productive resources to their best use**

3) What does international trade enable nations to acquire that is crucial for sustaining their economies?

- A) Foreign exchange reserves**
- B) Human resources**
- C) Natural disasters**
- D) Domestic monopolies**

4) How does international trade stimulate innovations in the economy?

- A) By reducing productivity improvement**
- B) By decreasing the use of automation**
- C) By promoting trade embargoes**
- D) By supporting technological change**

5) What does international trade contribute to in the services sector?

- A) Stimulating technological change**
- B) Limiting the growth of banking services**
- C) Decreasing stimulus for innovations**
- D) Providing greater stimulus to innovative services**

6) In what way does international trade contribute to emerging economies moving up the global value chain?

- A) By enhancing the value of their products**
- B) By limiting access to new markets and materials**
- C) By decreasing the value of their products**
- D) By discouraging the improvement in the quality of output**

7) How does international trade facilitate export diversification?

- A) By broadening the productive base and opening up new production possibilities**
- B) By restricting the movement up the global value chain**
- C) By limiting access to foreign exchange reserves**
- D) By discouraging innovation in the economy**

8) What does international trade contribute to human resource development?

- A) Facilitating exchange of know-how and best practices between trade partners**
- B) Impairing economic autonomy**
- C) Decreasing bonds between nations**
- D) Only promoting trade embargoes**

9) Which of the following is NOT an argument against trade openness?

- A) Risky dependence on foreign nations**
- B) Lack of transparency in trade policies**
- C) Unequal market access among nations**
- D) Economic exploitation of underprivileged countries**

10) How can international trade potentially threaten the political sovereignty of underdeveloped countries?

- A) Through risky dependence on foreign nations**
- B) By strengthening bonds between nations**
- C) By stimulating economic growth**
- D) By promoting the exchange of know-how between trade partners**

11) What are some examples of non-price measures or non-tariff measures in trade policy?

- A) Export taxes**
- B) Local content requirements**
- C) Technical Barriers to Trade (TBT)**
- D) All of the above**

12) Which tariff assigns a fixed monetary tax per physical unit of the imported good?

- A) Mixed tariff**
- B) Compound tariff**
- C) Specific tariff**
- D) Preferential tariff**

13) Tariff rate quotas combine which two policy instruments?

- A) Voluntary Export Restraints (VERs)**
- B) Quotas and export taxes**
- C) Preferential tariffs**
- D) Quotas and tariffs**

14) What does MFN stand for in trade policy?

- A) Most Frequent Nation**
- B) Most Favored Nation**

C) Mixed Fiscal Negotiation

D) Most Financial Normalization

15) What is the maximum level of import duty that can be levied on a product by a member as per the context?

A) Applied tariff

B) Preferential tariff

C) Escalated tariff rate

D) Bound tariff rate

16) What is the purpose of escalated tariff structure in trade policy?

A) To protect domestic industries

B) To reduce domestic consumption

C) To discourage imports of manufactured goods

D) To increase government revenues

17) What is dumping in the context of trade policy?

A) Offering export subsidies

B) Selling goods at the same price in domestic and foreign markets

C) Selling goods in foreign markets above the full average cost

D) Selling goods in foreign markets at a lower price than in the domestic market

18) What are countervailing duties intended to offset?

A) Market access barriers

B) Non-tariff measures

C) Financial measures

D) Unfair price advantages due to export subsidies and tax concessions

19) What are Technical Barriers to Trade (TBT) related to in trade policy?

A) Non-technical measures

B) Shipping requirements

C) Custom formalities

D) Standards and Technical Regulations

20) What does an export tax collected on exported goods aim to do?

A) None of the above

B) Discourage exports

C) Promote free trade

D) Lower import costs

21) Which organization was established as a result of the Uruguay Round of 1986-94 negotiations?

A) IMF

B) WTO

C) GATT

D) World Bank

22) How many multilateral negotiations known as "trade rounds" were held under the auspices of GATT?

A) Eight

B) Five

C) Four

D) Six

23) The primary objective of the WTO is to facilitate international trade by ensuring it is:

- A) Burdensome**
- B) Constrained**
- C) Restricted**
- D) Smooth, free, fair, and predictable**

24) Where is the Secretariat of the WTO located?

- A) Tokyo**
- B) New York**
- C) Geneva**
- D) Brussels**

25) What is the top-level decision-making body of the WTO?

- A) Intellectual Property (TRIPS) Council**
- B) Goods Council**
- C) Services Council**
- D) Ministerial Conference**

26) Which agreement under the WTO deals with technical barriers to trade?

- A) Agreement on technical barriers to trade (TBT)**
- B) Agreement on safeguards**
- C) Agreement on subsidies and countervailing measures**
- D) Agreement on anti-dumping**

27) The Doha Round is formally known as:

- A) The Uruguay Round**
- B) The London Round**
- C) The Doha Development Agenda**
- D) The Geneva Round**

28) What is the aim of Regional Trade Agreements (RTAs)?

- A) Reducing barriers to trade between member countries**
- B) Excluding developing countries**
- C) Increasing barriers to trade between member countries**
- D) Promoting protectionism**

29) What does it mean for a country to "bind" their commitments in the context of the WTO?

- A) Negotiating with trading partners**
- B) Imposing quotas on exports**
- C) Stabilizing the market**
- D) Setting limits on imports**

30) In the WTO, what do countries do when they agree to open their markets for goods or services?

- A) Implement quotas on imports**
- B) Increase customs tariff rates**
- C) Bind their commitments**
- D) Change their trade rules**

31) What fuels our curiosity when we read news about the currency market?

- A) Stock prices**
- B) Currency exchange rates**

C) Inflation rates

D) Unemployment rates

32) When we hear about the Rupee gaining 12 paise against the US dollar, what does this mean?

A) No change in currency value

B) Rupee is depreciating

C) US dollar is strengthening

D) Rupee is strengthening

33) In the currency transactions, what does it mean when the Dollar Spot/Forward Rates plummet?

A) The supply of the US dollar is increasing

B) No impact on currency transactions

C) The supply of the US dollar is decreasing

D) The demand for the US dollar is decreasing

34) What is the international dimension of money primarily concerned with?

A) International investment and lending activities

B) Determination of domestic price levels

C) Supply and demand of domestic currency

D) Exchange of goods and services across borders

35) How do households, businesses, and governments participate in the international dimension of money?

A) By buying goods and services from other countries

B) By avoiding foreign transactions

C) By issuing their own currency

D) By engaging in speculative trading

36) What contributes to the determination of price of one currency in terms of another?

- A) Political stability of countries**
- B) Climate change policies**
- C) International market transactions**
- D) Monetary policies of central banks**

37) Which of the following is NOT mentioned as a type of transaction that gives rise to the international dimension of money?

- A) Borrowing money from international sources**
- B) Investing in foreign businesses**
- C) Exchanging currencies**
- D) Lending money to foreign governments**

38) Why do households, businesses, and governments in India need different types of goods and services produced in other countries?

- A) To reduce international trade deficits**
- B) To benefit from innovation and specialization**
- C) To control inflation rates**
- D) To limit foreign investments**

39) What happens when foreign investors, businesses, and governments invest in a country?

- A) International trade barriers increase**
- B) Inflation rates decrease**
- C) Exchange rates become unpredictable**

D) Economic growth and job creation can occur

40) How are currency exchange rates affected by international transactions?

A) They remain constant over time

B) They are influenced by supply and demand dynamics in the market

C) Fluctuations depend on domestic policies only

D) They are determined by the physical gold reserves of a country

41) Which of the following is a true statement about foreign direct investment (FDI)?

A) FDI does not involve ownership, management, or control in the host country.

B) FDI is primarily aimed at short-term profits.

C) FDI entails ownership, control, and management of assets in the host country.

D) FDI may comprise horizontal, diagonal, and congregate investments.

42) What is the main characteristic that distinguishes foreign portfolio investment (FPI) from foreign direct investment (FDI)?

A) FPI always involves ownership of more than 10% in a firm.

B) FPI includes reinvested earnings as a component.

C) FPI allows for ownership management and control by the investor.

D) FPI does not involve ownership management or control of the asset by the investor.

43) Which of the following is not a form in which foreign direct investment (FDI) can take place?

- A) Mergers and acquisitions (M&A)**
- B) Opening a subsidiary or associate company**
- C) Joint ventures**
- D) Greenfield investment**

44) What may be a possible reason for foreign direct investment (FDI)?

- A) Increase in host country environmental and labor standards**
- B) Decrease in competition**
- C) Limited availability of needed inputs**
- D) Retention of trade patents**

45) In what way can foreign direct investment (FDI) benefit an economy?

- A) Elimination of domestic monopolies**
- B) Instability in the exchange rate**
- C) Decrease in employment opportunities**
- D) Higher efficiency and welfare for consumers**

46) What potential issue may arise due to foreign direct investment (FDI) as mentioned in the context?

- A) Distorted pattern of production and investment**
- B) Restriction of capital repatriation**
- C) Increase in domestic investments**
- D) Stability in the balance of payments**

47) How can foreign direct investment (FDI) negatively impact a country?

- A) Enhancement of the balance of payments position**
- B) Fostering a unified economy**
- C) Increase in competitiveness of domestic companies**
- D) Distortion of commodity terms of trade**

48) What is a common reason for the liberalization of foreign direct investment (FDI) in India?

- A) Bringing in more activities under the automatic route**
- B) Decreasing activities under automatic routes**
- C) Implementing stricter conditions for foreign investments**
- D) Restraints on foreign investment**

49) Which factor has facilitated outward foreign direct investment (OFDI) from India, as mentioned in the context?

- A) Stringent capital controls**
- B) Size reduction in OFDI**
- C) Complex investment procedures**
- D) Progressive relaxation of capital controls**

50) In what month of the year 2016 did the outward foreign direct investment (OFDI) from India amount to US\$ 1.86 billion?

- A) September**
- B) November**
- C) December**
- D) June**

51) Which of the following is a benefit of foreign direct investment (FDI)?

- A) Decrease in competition**
- B) Limited innovation**
- C) Lower quality products**
- D) Reduction in product variety**

52) What does FDI provide to developing countries?

- A) Limited job opportunities**
- B) Critical human capital skills**
- C) Decreased managerial skills**
- D) Decreased efficiency**

53) How does competition for FDI among national governments benefit the recipient country?

- A) Decreases political and structural reforms**
- B) Increases legal systems and macroeconomic policies**
- C) Encourages market monopolies**
- D) Negatively impacts employment rates**

54) What is one of the outcomes of FDI setting up a production base in the recipient country?

- A) Decrease in direct employment opportunities**
- B) Limitation in job creation**
- C) Reduction in GDP**
- D) Increase in domestic investments**

55) Which of the following is NOT an example of Technical Barriers to Trade (TBT)?

A) Marketing and label requirements

B) Quality standards

C) Currency exchange regulations

D) Eco-labelling

56) How do Technical Barriers to Trade (TBT) measures differ from Sanitary and Phytosanitary (SPS) measures?

A) TBT measures focus on biodiversity conservation

B) SPS measures only involve regulatory labeling

C) SPS measures are not standards-based D) TBT measures can be used as obstacles to imports or to protect domestic products

57) According to the Theory of Absolute Advantage by Adam Smith, international trade would be mutually beneficial if one country can produce a commodity at an absolute advantage over another country. This advantage is determined by comparing the countries' _____.

A) natural resources availability

B) labor productivity

C) capital investment

D) technology advancement

58) The principle of absolute advantage in international trade is based on the ability to produce a greater quantity of a good, product, or service than competitors, using the same amount of _____.

A) time

B) land

C) resources

D) machinery

59) In the Absolute Advantage Theory, Adam Smith primarily used _____ as the only input for determining absolute advantage in international trade.

- A) government policies
- B) technology
- C) labor
- D) capital

60) The concept of absolute advantage in international trade can be contrasted with which of the following concepts that refers to the ability to produce specific goods at a lower opportunity cost?

- A) Resource allocation
- B) Market dominance
- C) Comparative advantage
- D) Supply chain optimization

Answerkey :-

A :- 3 , 6 , 7 , 8 , 9 , 10 , 22 , 26 , 28 , 34 , 35 , 47 , 48 , 51 , 55

B :- 1 , 14 , 20 , 21 , 29 , 31 , 37 , 38 , 40 , 43 , 46 , 52 , 53 , 57

C :- 12 , 16 , 24 , 27 , 30 , 33 , 36 , 41 , 44 , 50 , 58 , 59 , 60

D :- 2 , 4 , 5 , 11 , 13 , 15 , 17 , 18 , 19 , 23 , 25 , 32 , 39 , 42 , 45 , 49 , 54 , 56

CHAPTER - 10

INDIAN ECONOMY

EXTRA MCQ'S

1) What percentage of the world's wealth is India believed to have controlled during ancient and medieval times?

- A) One half
- B) One fourth
- C) One fifth
- D) One third

2) What significant shift occurred in India's economic history due to British rule from 1757 to 1947?

- A) Growth of Indian manufacturing**
- B) Marked shift in economic history**
- C) Increased agricultural production**
- D) Expansion of local markets**

3) What was the primary reason for the decline of Indian manufacturing during British rule?

- A) Lack of raw materials**
- B) Overpopulation in cities**
- C) Increase in agricultural productivity**
- D) Adverse imperial policies and import of cheap goods**

4) Which sector felt the consequences of the collapse of the Indian manufacturing sector?

- A) Fishing sector**
- B) Trade sector**
- C) Agricultural sector**
- D) Mining sector**

5) What problem was exacerbated in agriculture due to the decline of the manufacturing sector?

- A) Subsistence farming and low productivity**
- B) High levels of exports**
- C) Fertile land acquisition**
- D) Increased mechanization**

6) What issue arose from institutional inadequacies in land tenure during British rule?

A) Absentee landlordism and high rents

B) Abolition of zamindari system

C) Growth of cooperative farming

D) Increase in agricultural science

7) Which industries saw lopsided growth during the British period?

A) Pharmaceuticals

B) Cotton and jute industry

C) Electronics and machinery

D) Coal and steel

8) What was the share of manufacturing in the Indian economy during the British rule?

A) Average

B) Pathetically low

C) Very high

D) Steadily increasing

9) What was a significant consequence of the British policies towards Indian manufacturing?

A) Increased competitiveness

B) Virtual destruction of the manufacturing sector

C) Rise of local artisans

D) Growth of self-sufficient villages

10) Which of the following was a result of the fragmentation of farms in India during British rule?

A) Increased exports of cash crops

- B) Enhanced agricultural productivity**
- C) Growth of urban centers**
- D) Lower incomes and aggravated poverty**

11) What was the primary focus of India's economic development strategy at independence?

- A) Military expansion**
- B) Natural resource exploitation**
- C) Social and economic redistribution**
- D) Focus on entertainment industry**

12) What institution was established to plan India's economic development?

- A) Planning Commission of India**
- B) Ministry of Finance**
- C) Industrial Development Bank**
- D) Reserve Bank of India**

13) Which policy emphasized an expanded role for the public sector in India?

- A) Green Revolution Strategy**
- B) Industrial Policy Resolution (1948)**
- C) Foreign Investment Policy**
- D) Economic Reforms of 1991**

14) What was a key characteristic of the Indian economy during the period 1950-1980?

- A) Overemphasis on technology**
- B) High employment in agricultural sector**

C) Low GDP growth rate of 3.5%

D) Global trade expansion

15) During Nehru's development strategy, what did 'planned modernization' refer to?

A) Systematic planning to support industrialization

B) Unregulated market growth

C) Selling public sector enterprises

D) Encouraging informal sector development

16) What led to a shift in agricultural policies in India during the mid-1960s?

A) Agricultural surplus

B) Urbanization

C) International trade agreements

D) Droughts and food crisis

17) The Industrial Policy Resolution of 1956 disproportionately favored which sector?

A) Public sector

B) Private sector

C) Informal sector

D) Export-oriented sector

18) Which two philosophies guided the economic policies in 1950s India?

A) Communist and Marxist

B) Nehruvian and Gandhian

C) Socialist and Liberal

D) Capitalist and Feudal

19) What resulted from the policies that prioritized public sector expansion during this period?

- A) Rapid technological advancement**
- B) Increased foreign investment**
- C) Agricultural prosperity**
- D) Dampening of private initiative and enterprise**

20) What was the average annual rate of GDP growth in India from 1950 to 1980 commonly referred to as?

- A) Nehruvian Growth Rate**
- B) Golden Growth Rate**
- C) Post-Independence Growth Rate**
- D) Hindu Growth Rate**

21) What does the term 'Green Revolution' refer to?

- A) A type of agricultural conference**
- B) A method of organic farming**
- C) A period of innovative farming technologies**
- D) A movement for environmental conservation**

22) Which act was established to prevent monopolies in India?

- A) Economic Liberalization Act**
- B) Small Scale Industries Act**
- C) Industrial Reforms Act**
- D) Monopolies and Restrictive Trade Practices Act, 1969**

23) During which period did India's economic performance significantly decline?

- A) 1975-1980**
- B) 1991-2000**
- C) 1965-1981**
- D) 1947-1965**

24) What contributed to the economic slowdowns between 1965 and 1981?

- A) Rapid industrialization**
- B) Three wars and major droughts**
- C) Global economic improvements**
- D) Increase in foreign investments**

25) What was a key goal of the early reforms initiated in the 1980s?

- A) Expand monopolistic practices**
- B) Limit foreign investments**
- C) Establish price controls**
- D) Promote inward-oriented trade**

26) What does the term 'reforms by stealth' refer to?

- A) Hidden financial frauds**
- B) Declarations of new industrial policies**
- C) Major publicized government policies**
- D) Rapidly introduced reforms without prior notice**

27) What was one of the significant reforms implemented in the 1980s?

- A) Complete nationalization of industries**
- B) Introduction of new taxes on agriculture**
- C) De-licensing of 25 broad categories of industries**
- D) Increase in licensing requirements**

28) What problem inhibited private sector investments during the period discussed?

- A) Excessive government controls and convoluted licensing policies**
- B) Simple tax structures**
- C) Lack of international competition**
- D) Abundance of liquid capital**

29) Which body was established as a non-statutory authority in the 1980s?

- A) Indian Investment Commission**
- B) Reserve Bank of India**
- C) National Bank for Agriculture and Rural Development**
- D) Securities and Exchange Board of India (SEBI)**

30) Which initiative aimed to liberalize imports during the 1980s?

- A) Export Incentives Program**
- B) Fiscal Restructuring Plan**
- C) Small Scale Industries Act**
- D) Open General Licence (OGL)**

31) What was a major issue in the public sector before the economic reforms of the 1990s?

- A) Inefficiency and bureaucratic procedures**

- B) Increased foreign trade**
- C) High returns on investment**
- D) Strong foreign competition**

32) What form of import controls insulated the economy from foreign competition?

- A) Export subsidies**
- B) Import tax reductions**
- C) Foreign exchange liberalization**
- D) Tariffs and quotas**

33) Which significant event in the 1990s prompted economic reforms in India?

- A) The successful implementation of free market policies in the West**
- B) An increase in foreign investment**
- C) The collapse of the Soviet Union**
- D) The establishment of common market agreements**

34) What were the twin objectives of the economic reforms launched in 1991?

- A) Enhancing public sector dominance**
- B) Increased regulation and reduced exports**
- C) Decreasing foreign trade**
- D) Market-oriented reforms and macroeconomic stabilization**

35) Which of the following was NOT part of the stabilization measures during the reforms?

- A) Addressing inflation issues**
- B) Short-term economic fixes**

C) Structural rigidity removal

D) Reducing fiscal deficits

36) What did the fiscal reforms mainly focus on?

A) Reducing foreign investment

B) Stable and transparent tax structure

C) Abolishing all taxes

D) Increasing government expenditure

37) How did the monetary reforms affect the banking sector?

A) Decreased competition by limiting private banks

B) Abolished all private banking

C) Restricted foreign banks' entry

D) Introduced interest rate liberalization

38) What is one aim of structural reforms in the economic policies?

A) Centralizing economic decisions

B) Increasing tariffs on imports

C) Improving bureaucratic processes

D) Enhancing productivity and competitiveness

39) Which of the following reforms aimed to improve tax compliance?

A) Decreasing interest rates

B) Eliminating private sector competition

C) Introduction of a transparent tax structure

D) Increasing foreign trade tariffs

40) What organization was granted statutory recognition to facilitate resource mobilization in India?

- A) Bombay Stock Exchange**
- B) Reserve Bank of India**
- C) Ministry of Finance**
- D) Securities and Exchange Board of India (SEBI)**

41) The New Industrial Policy announced on 24 July 1991 aimed to:

- A) Reduce competition in the market**
- B) Reinstate the License Raj**
- C) Promote a more efficient and competitive industrial economy**
- D) Increase government control over industries**

42) How many industries were reserved for licensing under the New Industrial Policy?

- A) 10**
- B) 25**
- C) 30**
- D) 18**

43) Which policy related to mergers and takeovers was restructured under the New Industrial Policy?

- A) Foreign Exchange Management Act**
- B) Trade Compliance Act**
- C) MRTP Act**
- D) FDI Policy**

44) Which reform initiative involved the removal of licensing for imports?

- A) Foreign Investment Promotion Act**
- B) Resource Mobilization Act**
- C) Trade Policy Reforms**
- D) Fiscal Responsibility Act**

45) What was one of the major changes resulting from the reforms in India's economy?

- A) Unprecedented growth of private sector investments**
- B) Increased government market intervention**
- C) Decreased integration with the global economy**
- D) Rise in government control**

46) Which year was notable for a negative GDP growth rate in India post-reform?

- A) 2020**
- B) 2019**
- C) 2021**
- D) 2018**

47) What is one of the constraints faced by India despite economic reforms?

- A) Decrease in international competitiveness**
- B) High levels of fiscal deficit**
- C) Increased government market control**
- D) Abundance of resources**

48) Which institution was central to India's governance for nearly sixty-four years?

- A) National Development Council**
- B) Securities and Exchange Board**
- C) Planning Commission of India**
- D) Ministry of Economy**

49) What was the primary objective of establishing NITI Aayog in 2015?

- A) To control state governments**
- B) To promote cooperative federalism**
- C) To increase the central government's power**
- D) To solely focus on budget management**

50) Which of the following is NOT one of the key initiatives of NITI Aayog?

- A) Shoonya**
- B) India Growth Task Force**
- C) Transforming India's Gold Market**
- D) Life**

51) What percentage of India's GDP was contributed by the agriculture sector in 2021-22?

- A) 10.5%**
- B) 18.8%**
- C) 15.0%**
- D) 22.3%**

52) Which of the following products does India NOT rank as the largest producer of?

- A) Spices**

- B) Coffee**
- C) Wheat**
- D) Jute**

53) How much food grains production did India reach in 2021-22?

- A) 250 million tonnes**
- B) 317.5 million tonnes**
- C) 315.7 million tonnes**
- D) 350 million tonnes**

54) What is the role of the Agricultural and Processed Food Export Development Authority (APEDA)?

- A) To manage food safety**
- B) To regulate food prices**
- C) To oversee agricultural subsidies**
- D) To promote agri-products exports**

55) Which government initiative provides income support to farmers?

- A) Micro Irrigation Fund**
- B) Agri Infrastructure Fund**
- C) PM KISAN**
- D) Pradhan Mantri Fasal Bima Yojana (PMFBY)**

56) Which of the following is aimed at providing insurance coverage to farmers?

- A) Pradhan Mantri Fasal Bima Yojana (PMFBY)**
- B) Kisan Rail**

C) PM KISAN

D) E-NAM

57) What limitation is mentioned regarding NITI Aayog's role in policy-making?

- A) It has too much autonomy**
- B) It lacks a balance of power**
- C) It oversees all state-level policies**
- D) It has full budgeting authority**

58) As of November 2022, what percentage of total India's GVA is accounted for by the services sector?

- A) 25.40%**
- B) 60.10%**
- C) 53.89%**
- D) 30.22%**

59) How much did India's services exports amount to in November 2022?

- A) US\$ 20.5 billion**
- B) US\$ 27.0 billion**
- C) US\$ 15.0 billion**
- D) US\$ 30.0 billion**

60) What investment policy has the Indian government allowed in telecommunication services?

- A) 50% foreign participation**
- B) 100% foreign participation through the Automatic Route**
- C) 100% foreign participation with conditions**

D) 75% foreign participation

Answerkey :-

A :- 5 , 6 , 12 , 15 , 17 , 28 , 31 , 45 , 46 , 56

B :- 2 , 7 , 8 , 9 , 13 , 18 , 24 , 36 , 47 , 49 , 50 , 51 , 52 , 57 , 59 , 60

C :- 4 , 11 , 14 , 21 , 23 , 27 , 33 , 35 , 39 , 41 , 43 , 44 , 48 , 53 , 55 , 58

D :- 1 , 3 , 10 , 16 , 19 , 20 , 22 , 25 , 26 , 29 , 30 , 32 , 34 , 37 , 38 , 40 , 42 , 54

THANK YOU!

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