

# CA FOUNDATION

AS PER NEW SYLLABUS !!!

# BUSINESS ECONOMICS



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**CHAPTER 1****NATURE & SCOPE OF BUSINESS ECONOMICS**

Max Marks 50

**Questions**

- Q.1) The term Economics owes its origin to Greek word \_\_\_\_**
- a) Aikonomia
  - b) Wikonomia
  - c) Oikonomia
  - d) None of the above
- Q.2) Which one is the feature of Marshall's definition?**
- a) Limited ends
  - b) Scarce means
  - c) Study of wealth & mankind
  - d) Study of allocation of resources
- Q.3) Economics is the study of \_\_\_\_**
- a) How society manages its unlimited resources
  - b) How to reduce our wants
  - c) How society manages its scarce resources
  - d) How to fully satisfy our wants
- Q.4) \_\_\_\_\_ refers to the process of selecting an appropriate alternative that will provide the most efficient means of attaining a desired end, from two or more alterative courses of action.**
- a) Decision making
  - b) Strategy
  - c) Problem Solving
  - d) Effectiveness
- Q.5) Business Economics is essentially a component of \_\_\_\_\_ as it includes application of selected quantitative techniques.**
- a) Pure Economics
  - b) Applied Economics,
  - c) Statistical Economics
  - d) None of the above
- Q.6) which of the following is not the subject matter of Business Economics?**
- a) Should our firm be in this business?
  - b) How much should be produced and at price should be kept?
  - c) How will the product be placed in the market?
  - d) How should we decrease unemployment in the economy?
- Q.7) A study of how increase in the corporate income tax rate will affect the natural unemployment rate is an example of:**
- a) Micro Economics
  - b) Descriptive Economics

- c) Micro Economics
- d) Normative Economics

Q.8) The heart of Business Economics is

- a) Micro Economic Theory of the behaviour of consumers and firms in competitive markets.
- b) Macro-Economic Theory of the national income
- c) Economic analysis to analyze the industry
- d) All of the above

Q.9) Economic goods are considered as scarce resources because

- a) Inadequate quantity to satisfy the needs of the society
- b) Not possible to increase in quantity
- c) Limited hands to make goods
- d) Primary importance in satisfying social requirements

Q.10) Who defines Economics in terms of Dynamic Growth and Development?

- a) Robbins
- b) Paul A Samuelson
- c) Adam Smith
- d) None of these

Q.11) In Economics, we use the term scarcity to mean -

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

Q.12) What implication(s) does resource scarcity have for the satisfaction of wants?

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

Q.13) Unlimited ends and limited means together present the problem of \_\_\_\_\_.

- (a) Scarcity of resources
- (b) Choice
- (c) Distribution
- (d) None of the above

Q.14) \_\_\_\_\_ is also called as command economy

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

Q.15) Which of the following statements is/are correct regarding business economics?

- (a) Business economics attempts to indicate how business policies are firmly rooted in economic principles.



- (b) Business economics uses micro economic analysis of the business unit and macro economic analysis of business environment.
  - (c) Business economics takes a pragmatic approach towards facilitating an integration between economic theory and business practices.
  - (d) All the above.
- Q.16) Mr. Satish hired a business consultant to guide him for growth of his business. The consultant visited his factory and suggested some changes with respect to staff appointment, loan availability and so on. Which approach is that consultant using?
- (a) Micro economics
  - (b) Macro economics
  - (c) None of the above
  - (d) Both a and b
- Q.17) Profit motive is a merit of
- (a) Socialism
  - (b) Capitalism
  - (c) Mixed economy
  - (d) None of the above
- Q.18) The managerial economics –
- (a) Is Applied Economics that fills the gap between economic theory and business practice
  - (b) Is just a theory concept
  - (c) Trains managers how to behave in recession
  - (d) Provides the tools which explain various concepts
- Q.19) Administered prices refer to:
- (a) Prices determined by forces of demand and supply
  - (b) Prices determined by sellers in the market
  - (c) Prices determined by an external authority which is usually the government
  - (d) None of the above
- Q.20) Exploitation and inequality are minimal under:
- (a) Socialism
  - (b) Capitalism
  - (c) Mixed economy
  - (d) None of the above
- Q.21) Which of the following is not one of the features of capitalist economy?
- (a) Right of private property
  - (b) Freedom of choice by the consumers
  - (c) No profit, No Loss motive
  - (d) Competition
- Q.22) Freedom of choice is the advantage of -
- (a) Socialism
  - (b) Capitalism
  - (c) Communism
  - (d) None of the above

- Q.23) Macro Economics is the study of \_\_\_\_\_.
- (a) all aspects of scarcity.
  - (b) the national economy and the global economy as a whole.
  - (c) big businesses.
  - (d) the decisions of individual businesses and people.
- Q.24) Larger production of \_\_\_goods would lead to higher production in future.
- (a) consumer goods
  - (b) capital goods
  - (c) agricultural goods
  - (d) public goods
- Q.25) The economic system in which all the means of production are owned and controlled by private individuals for profit.
- (a) Socialism
  - (b) Capitalism
  - (c) Mixed economy
  - (d) Communism
- Q.26) Capital intensive technique would get chosen in a
- (a) labour surplus economy where the relative price of capital is lower.
  - (b) capital surplus economy where the relative price of capital is lower.
  - (c) developed economy where technology is better.
  - (d) developing economy where technology is poor.
- Q.27) In a mixed economy -
- (a) all economic decisions are taken by the central authority.
  - (b) all economic decisions are taken by private entrepreneurs.
  - (c) economic decisions are partly taken by the state and partly by the private entrepreneurs.
  - (d) none of the above.
- Q.28) Which of the following is considered as a disadvantage of allocating resources using the market system?
- (a) Income will tend to be unevenly distributed.
  - (b) People do not get goods of their choice.
  - (c) Men of Initiative and enterprise are not rewarded.
  - (d) Profits will tend to be low.
- Q.29) The central problem in economics is that of
- (a) comparing the success of command versus market economies.
  - (b) guaranteeing that production occurs in the most efficient manner.
  - (c) guaranteeing a minimum level of income for every citizen.
  - (d) allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.

- Q.30) Which of the following is a normative economic statement?
- (a) Unemployment rate decreases with industrialization
  - (b) Economics is a social science that studies human behaviour.
  - (c) The minimum wage should be raised to ` 200/- per day
  - (d) India spends a huge amount of money on national defence.
- Q.31) Consider the following and decide which, if any, economy is without scarcity:
- (a) The pre-independent Indian economy, where most people were farmers.
  - (b) A mythical economy where everybody is a billionaire.
  - (c) Any economy where income is distributed equally among its people.
  - (d) None of the above.
- Q.32) Which of the following is not a subject matter of Micro-economies?
- (a) The price of mangoes.
  - (b) The cost of producing a fire truck for the fire department of Delhi, India.
  - (c) The quantity of mangoes produced for the mangoes market.
  - (d) The national economy's annual rate of growth.
- Q.33) Ram: My corn harvest this year is poor.  
Krishan: Don't worry. Price increases will compensate for the fall in quantity supplied.  
Vinod: Climate affects crop yields. Some years are bad, others are good.  
Madhu: The Government ought to guarantee that our income will not fall.  
In this conversation, the normative statement is made by -
- (a) Ram
  - (b) Krishan
  - (c) Vinod
  - (d) Madhu
- Q.34) Which of the following does not suggest a macro approach for India?
- (a) Determining the GNP of India.
  - (b) Finding the causes of failure of ABC Ltd.
  - (c) Identifying the causes of inflation in India.
  - (d) Analyse the causes of failure of industry in providing large scale employment
- Q.35) Which of the following statements does not apply to a market economy?
- (a) Firms decide whom to hire and what to produce.
  - (b) Firms aim at maximizing profits.
  - (c) Households decide which firms to work for and what to buy with their incomes.
  - (d) Government policies are the primary forces that guide the decisions of firms and households.
- Q.36) A capitalist economy uses \_\_\_\_\_ as the principal means of allocating resources.
- (a) demand
  - (b) supply
  - (c) efficiency
  - (d) prices

- Q.37) Which of the following is a normative statement?
- (a) Planned economies allocate resources via government departments.
  - (b) Most transitional economies have experienced problems of falling output and rising prices over the past decade.
  - (c) There is a greater degree of consumer sovereignty in market economies than planned economies.
  - (d) Reducing inequality should be a major priority for mixed economies.
- Q.38) An example of 'positive' economic analysis would be:
- (a) an analysis of the relationship between the price of food and the quantity purchased.
  - (b) determining how much income each person should be guaranteed.
  - (c) determining the 'fair' price for food.
  - (d) deciding how to distribute the output of the economy.
- Q.39) Macroeconomics is also called——— economics.
- (a) applied
  - (b) aggregate
  - (c) experimental
  - (d) none of the above
- Q.40) Which of the following would be considered a topic of study in Macroeconomics?
- (a) The effect of increase in wages on the profitability of cotton industry
  - (b) The effect on steel prices when more steel is imported
  - (c) The effect of an increasing inflation rate on living standards of people in India
  - (d) The effect of an increase in the price of coffee on the quantity of tea consumed
- Q.41) The difference between positive and normative Economics is:
- (a) Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.
  - (b) Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.
  - (c) Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.
  - (d) Positive Economics prescribes while normative Economics describes.
- Q.42) Which of the following is not within the scope of Business Economics?
- (a) Capital Budgeting
  - (b) Risk Analysis
  - (c) Business Cycles
  - (d) Accounting Standards
- Q.43) Which of the following statements is incorrect?
- (a) Business economics is normative in nature.
  - (b) Business Economics has a close connection with statistics.
  - (c) Business Economist need not worry about macro variables.
  - (d) Business Economics is also called Managerial Economics.

- Q.44) Scarcity definition of Economics is given by-
- (a) Alfred Marshall
  - (b) Samuelson
  - (c) Robinson
  - (d) Adam Smith
- Q.45) The definition "Science which deals with wealth of Nation" was given by:
- (a) Alfred Marshall
  - (b) A C Pigou
  - (c) Adam Smith
  - (d) J B Say
- Q.46) Which of the following statements is correct?
- (a) Micro economics is important for study of a particular household and a particular firm
  - (b) Macro economics is important for study of economic conditions of a country
  - (c) None of the above
  - (d) Both a and b
- Q.47) Who defined Business economics in terms of the use of economic analysis in the formulation of business policies?
- (a) Adam Smith
  - (b) Robbins
  - (c) Joel Dean
  - (d) Alfred Marshall
- Q.48) Concept of Business Economics was given by:
- (a) Joel Dean
  - (b) Alfred Marshall
  - (c) Adam Smith
  - (d) L. Robbins
- Q.49) The choice between labour- and Capital-intensive techniques is related with:
- (a) What to Produce?
  - (b) How to Produce?
  - (c) For whom to Produce
  - (d) All of the above.
- Q.50) Which of the following is NOT a central issue in macroeconomics?
- (a) How should the central bank of a country fight inflation?
  - (b) What is responsible for high and persistent unemployment?
  - (c) How do tax changes influence consumers' buying choices?
  - (d) What factors determine economic growth?

## ANSWERS

<b>Q.1</b>	b	<b>Q.21</b>	c	<b>Q.41</b>	b
<b>Q.2</b>	c	<b>Q.22</b>	b	<b>Q.42</b>	d
<b>Q.3</b>	c	<b>Q.23</b>	b	<b>Q.43</b>	c
<b>Q.4</b>	a	<b>Q.24</b>	b	<b>Q.44</b>	c
<b>Q.5</b>	b	<b>Q.25</b>	b	<b>Q.45</b>	c
<b>Q.6</b>	d	<b>Q.26</b>	b	<b>Q.46</b>	d
<b>Q.7</b>	c	<b>Q.27</b>	c	<b>Q.47</b>	c
<b>Q.8</b>	a	<b>Q.28</b>	a	<b>Q.48</b>	a
<b>Q.9</b>	a	<b>Q.29</b>	d	<b>Q.49</b>	b
<b>Q.10</b>	b	<b>Q.30</b>	c	<b>Q.50</b>	c
<b>Q.11</b>	b	<b>Q.31</b>	d		
<b>Q.12</b>	a	<b>Q.32</b>	d		
<b>Q.13</b>	b	<b>Q.33</b>	d		
<b>Q.14</b>	a	<b>Q.34</b>	b		
<b>Q.15</b>	d	<b>Q.35</b>	d		
<b>Q.16</b>	a	<b>Q.36</b>	d		
<b>Q.17</b>	b	<b>Q.37</b>	d		
<b>Q.18</b>	a	<b>Q.38</b>	a		
<b>Q.19</b>	c	<b>Q.39</b>	b		
<b>Q.20</b>	a	<b>Q.40</b>	c		



**CHAPTER 2**  
**THEORY OF DEMAND & SUPPLY**

Max Marks 100

**Questions**

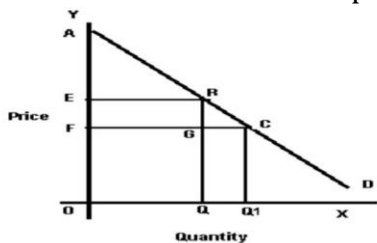
- Q.1) Demand for a commodity refers to:
- a) Desire backed by ability to pay for the commodity
  - b) Need for the commodity and willingness to pay for it
  - c) The quantity demanded of that commodity at a certain price
  - d) The quantity of the commodity demanded at a certain price during any particular period of time.
- Q.2) The quantity demanded is always expressed
- a) Separately in isolation
  - b) Separately with quantity supplied
  - c) At a given price
  - d) None of these
- Q.3) The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are\_\_\_\_\_.
- a) Normal goods
  - b) Complements
  - c) Substitutes
  - d) Inferior goods
- Q.4) In a demand function, the determinants of demand like price, money income, tastes & preferences, etc. may be regarded as
- a) Dependent Variables
  - b) Independent Variables
  - c) Related Variables
  - d) Complex variables
- Q.5) A Table which represents the different prices of a good and the corresponding quantity demanded per unit of time is called as\_\_\_\_\_.
- a) Demand Curve
  - b) Demand Table
  - c) Demand Schedule
  - d) Demand Tabulation
- Q.6) A Symbolic statement of a relationship between the dependent and the independent variables is called as\_\_\_\_\_.
- a) Function
  - b) Sets
  - c) Equation
  - d) Variable

- Q.7) In case of Normal goods, Rise in price leads to \_\_\_\_
- a) Fall in demands
  - b) Rise in demand
  - c) No Change
  - d) Initially rise then ultimately fall
- Q.8) All but one of the following are assumed to remain the same while drawing an individual's demand curve for a commodity. Which one is it?
- a) The preference of the individual
  - b) His monetary income
  - c) Price of the commodity
  - d) Price of related goods
- Q.9) Comforts lies between
- a) Inferior goods and necessities
  - b) Luxuries and inferior goods
  - c) Necessaries and luxuries,
  - d) None of the above
- Q.10) A relative price is\_\_\_\_\_.
- a) Price expressed in terms of money
  - b) What you get paid for babysitting your cousin
  - c) The ratio of one money price to another
  - d) Equal to a money price
- Q.11) Successful business firms spend considerable time, energy, and efforts in analyzing the \_\_\_\_\_ for their products.
- (a) Supply
  - (b) Price
  - (c) Demand
  - (d) None of these
- Q.12) The demand for labour in response to the wage rate is \_\_\_\_\_ whereas the demand for same labour in response to the price of electronic goods where labour enters as an input is\_\_\_\_\_.
- (a) Derived Demand, Direct Demand
  - (b) Direct Demand, Derived Demand
  - (c) Individual Demand, Market Demand
  - (d) Company Demand, Industry Demand
- Q.13) During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy \_\_\_\_\_ vegetables than/as her usual demand showing the demand of vegetables is \_\_\_\_\_.
- (a) more, inelastic demand
  - (b) less, elastic demand
  - (c) same, inelastic demand
  - (d) same, elastic demand

- Q.14) The law of consumer surplus is based on:
- (a) indifferent curve analysis
  - (b) revealed preference theory
  - (c) law of substitution
  - (d) the law of diminishing marginal utility
- Q.15) Traditional approach of law of demand was propounded by \_\_\_\_.
- (a) Giffen
  - (b) Paul A Samuelson
  - (c) Alfred Marshall
  - (d) Pique
- Q.16) Marshallian theory of consumer's behaviour is based on:
- (a) Hypothesis of additive utilities.
  - (b) Hypothesis of independent utilities.
  - (c) Both (A) and (B)
  - (d) Weak ordering
- Q.17) The economist's concept of demand is \_\_\_\_\_ as desire or need or choice or preference or order.
- (a) the same thing
  - (b) not the same thing
  - (c) (a) or (b)
  - (d) None of these
- Q.18) Which of the following groups of goods have inelastic demand?
- (a) Salt, Smart Phone and Branded Lipstick
  - (b) School Uniform, Branded Goggles and Smart Phone
  - (c) Salt, School Uniform and Medicine
  - (d) Medicine, Branded Sports Shoes, and Diamond ring
- Q.19) A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has \_\_\_\_.
- (a) more of one of the goods
  - (b) less of at least one of the goods
  - (c) more of at least one of the goods and less of the other good.
  - (d) more of at least one of the goods and no less of the other good.
- Q.20) Demand for complementary goods are:
- (a) Derived Demand
  - (b) Autonomous demand
  - (c) Aggregate Demand
  - (d) None of these
- Q.21) If we notice that an increase in the price of product X causes reductions in the demand for product Y, then we can conclude that these two products are:
- (a) complements in consumption. (b) substitutes in consumption.
  - (c) Complements in production.

- Q.22) If cross-price elasticity between goods A and B is determined to be exactly zero, which of the following statements is correct?
- (a) Goods A and B are substitutes
  - (b) Goods A and B are complements
  - (c) Goods A and B are comparatives
  - (d) Goods A and B are independent
- Q.23) If supply increases while demand decreases:
- (a) the equilibrium price will definitely increase.
  - (b) the equilibrium quantity will definitely increase.
  - (c) the equilibrium price will definitely decrease.
  - (d) the equilibrium quantity will definitely decrease.
- Q.24) The particular level of AD which is equal to AS is called\_\_\_\_\_.
- (a) equilibrium demand
  - (b) effective demand
  - (c) derived demand
  - (d) None of the above
- Q.25) The price elasticity of demand for a good will tend to be more elastic if:
- (a) the good is broadly defined (e.g., the demand for food as opposed to the demand for carrots).
  - (b) the good has relatively few substitutes.
  - (c) a long period of time is required to fully adjust to a price change in the good.
  - (d) None of the above is true.
- Q.26) Traditional approach of law of demand was propounded by\_\_\_\_.
- (a) Giffen
  - (b) Paul A Samuelson
  - (c) Alfred Marshall
  - (d) Pique
- Q.27) Which of the following statements is correct?
- (a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero.
  - (b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite.
  - (c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity.
  - (d) None of these
- Q.28) The economist's concept of demand is \_\_\_\_\_ as desire or need or choice or preference or order.
- (a) the same thing
  - (b) not the same thing
  - (c) (a) or (b)
  - (d) None of these

- Q.29) Which of the following are the determinant of price elasticity of demand:
- Availability of substitutes
  - Time period
  - Tied demand
  - All of these
- Q.30) Contraction of demand is the result of
- Decrease in the number of Consumers
  - Increase in the price of the good concerned
  - Price of related products
  - None of these
- Q.31) The law of demand is :
- Irreversible in nature
  - Reversible in nature
  - Both (a) and (b)
  - None of these
- Q.32) A decrease in the demand for mobile phone other things remaining the same will \_\_\_\_
- Increase purchase the number of mobile phone bought
  - Decrease the price but increase the number of mobile phone
  - Decrease in quantity of mobile phone demanded
  - Decrease the price and decrease in the number of Mobile Phone bought
- Q.33) For Giffen good the angle Curve is :
- Vertical
  - Horizontal
  - Negatively Sloped
  - Positively Sloped
- Q.34) The effect on consumer surplus of a fall in price from E to F is



- A decrease in consumer surplus by EFGR
  - A decrease in consumer surplus by AER
  - A decrease in consumer surplus by EFCR
  - None of the above
- Q.35) During a recession, economies experience increased unemployment and a reduced level of income. How would a recession likely to affect the market demand for new cars?
- Demand curve will shift to the right.
  - Demand curve will shift to the left.
  - Demand will not shift, but the quantity of cars sold per month will decrease.
  - Demand will not shift, but the quantity of cars sold per month will increase.

- Q.36) Data on production of vegetables for the past two years showed that, despite stable prices, there is a substantial decline in output of cabbage leading to lower supply into the market. Which of the following can possibly be the reason?
- An increase in the price of cauliflower which is equally preferred by consumers
  - Announcement of a subsidy by government on vegetable production
  - More farmers producing cabbage and the increasing competition among them
  - A substantial decrease in the price of capsicum
- Q.37) If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is;
- The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
  - The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold
  - The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
  - (a) and (c) above are true
- Q.38) The cross elasticity between Bread and DVDs is:
- Positive
  - Negative
  - Zero
  - One
- Q.39) The supply curve for highly perishable commodities during very short period is generally \_\_\_\_\_
- Elastic
  - Inelastic
  - Perfectly elastic
  - Perfectly inelastic
- Q.40) If a short run supply curve is plotted for the following table which presents price and quantity of fighter aircrafts, what will be its shape?

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

- Horizontal straight line parallel to the quantity axis
  - Steeply rising with elasticity less than one
  - Vertical straight line parallel to Y axis
  - A perfectly elastic supply curve
- Q.41) If roller- coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls
- The demand for roller- coaster rides will rise and the demand curve will shift to right



- (b) The demand for roller coaster ride cannot be predicted as it depends on the tastes of consumers for the ride
- (c) There will be an expansion in the demand for roller coaster drive as it complementary.
- (d) None of the above
- Q.42) The demand curve of a normal good has shifted to the right. Which of the four events would have caused the shift?
- (a) A fall in the price of a substitute with the price of the good unchanged
- (b) A fall in the nominal income of the consumer and a fall in the price of the normal good
- (c) A fall in the price of a complementary good with the price of the normal good unchanged
- (d) A fall in the price of the normal good, other things remaining the same
- Q.43) Which of the following statements is correct?
- (a) With the help of statistical tools, the demand can be forecasted with perfect accuracy
- (b) The more the number of substitutes of a commodity, the more elastic is the demand.
- (c) Demand for butter is perfectly elastic.
- (d) Gold jewellery will have negative income elasticity.
- Q.44) Suppose the income elasticity of education in private school in India is 3.6. What does this indicate:
- (a) Private school education is highly wanted by rich
- (b) Private school education is a necessity.
- (c) Private school education is a luxury.
- (d) We should have more private schools.
- Q.45) 'No matter what the price of coffee is, Arjun always spend a total of exactly 100 per week on coffee.' The statement implies that:
- (a) Arjun is very fond of coffee and therefore he has an inelastic demand for coffee
- (b) Arjun has elastic demand for coffee
- (c) Arjun's demand for coffee is relatively less elastic
- (d) Arjun's demand for coffee is unit elastic
- Q.46) At higher prices people demand more of certain goods not for their worth but for their prestige value – This is called
- (a) Veblen effect
- (b) Giffens paradox
- (c) Speculative effect
- (d) None of the above
- Q.47) Elasticity of supply is zero means
- (a) perfectly inelastic supply
- (b) perfectly elastic supply
- (c) imperfectly elastic supply
- (d) none of the above

- Q.48) If the quantity supplied is exactly equal to the relative change in price then the elasticity of supply is
- (a) Less than one
  - (b) Greater than one
  - (c) One
  - (d) None of the above
- Q.49) The price of a commodity decreases from 6 to 4 and the quantity demanded of the good increases from 10 units to 15 units. Find the coefficient of price elasticity.
- (a) 1.5
  - (b) 2.5
  - (c) -1.5
  - (d) 0.5
- Q.50) An increase in the number of sellers of bikes will increase the
- (a) The price of a bike
  - (b) Demand for bikes
  - (c) The supply of bikes
  - (d) Demand for helmets
- Q.51) In a very short period, the supply
- (a) can be changed
  - (b) can not be changed
  - (c) can be increased
  - (d) none of the above
- Q.52) The supply function is given as  $Q = -100 + 10P$ . Find the elasticity using point method, when price is Rs. 15.
- (a) 4
  - (b) -3
  - (c) -5
  - (d) 3
- Q.53) In Economics, when demand for a commodity increases with a fall in its price it is known as:
- (a) Contraction of demand
  - (b) Expansion of demand
  - (c) No change in demand
  - (d) None of the above
- Q.54) With an increase in the price of diamond, the quantity demanded also increases. This is because it is a:
- (a) Substitute good
  - (b) Complementary good
  - (c) Conspicuous good
  - (d) None of the above

- Q.55) An example of goods that exhibit direct price-demand relationship is
- (a) Giffen goods
  - (b) Complementary goods
  - (c) Substitute goods
  - (d) None of the above
- Q.56) If price of computers increases by 10% and supply increases by 25%. The elasticity of supply is :
- (a) 2.5
  - (b) 0.4
  - (c) (-) 2.5
  - (d) (-) 0.4
- Q.57) Suppose potatoes have (-).0.4 as income elasticity. We can say from the data given that:
- (a) Potatoes are superior goods.
  - (b) Potatoes are necessities.
  - (c) Potatoes are inferior goods.
  - (d) There is a need to increase the income of consumers so that they can purchase potatoes.
- Q.58) A good which cannot be consumed more than once is known as
- (a) Durable good
  - (b) Non-durable good
  - (c) Producer good
  - (d) None of the above
- Q.59) The luxury goods like jewellery and fancy articles will have
- (a) low income elasticity of demand
  - (b) high income elasticity of demand
  - (c) zero income elasticity of demand
  - (d) none of the above
- Q.60) If the supply of bottled water decreases, other things remaining the same, the equilibrium price \_\_\_\_\_ and the equilibrium quantity \_\_\_\_\_
- (a) increases; decreases
  - (b) decreases; increases
  - (c) decreases; decreases
  - (d) increases; increases
- Q.61) Which of the following statements about inferior goods is/are false?
- I. Inferior goods are those that we will never buy, no matter how cheap they are.
  - II. Inferior goods are those that we buy more of, if we become poorer.
  - III. Inferior goods are those that we buy more of, if we become richer.
- (a) I and III only.
  - (b) I only
  - (c) III only.
  - (d) I, II, and III.

- Q.62) When supply curve moves to the left, it means
- (a) lesser quantity is supplied at a given price
  - (b) larger quantity is supplied at a given price
  - (c) prices have fallen and quantity is supplied at a lower price
  - (d) none of the above
- Q.63) The elasticity of supply is defined as the
- (a) responsiveness of the quantity supplied of a good to a change in its price
  - (b) responsiveness of the quantity supplied of a good without change in its price
  - (c) responsiveness of the quantity demanded of a good to a change in its price
  - (d) responsiveness of the quantity demanded of a good without change in its price
- Q.64) Elasticity of supply is greater than one when
- (a) Proportionate change in quantity supplied is more than the proportionate change in price.
  - (b) Proportionate change in price is greater than the proportionate change in quantity supplied.
  - (c) change in price and quantity supplied are equal
  - (d) None of the above
- Q.65) Supply is the
- (a) limited resources that are available with the seller
  - (b) cost of producing a good
  - (c) entire relationship between the quantity supplied and the price of good.
  - (d) Willingness to produce a good if the technology to produce it becomes available
- Q.66) When total demand for a commodity whose price has fallen increases, it is due to:
- (a) Income effect.
  - (b) Substitution effect
  - (c) Complementary effect
  - (d) Price effect
- Q.67) Contraction of supply is the result of:
- (a) Decrease in the number of producers.
  - (b) Decrease in the price of the good concerned.
  - (c) Increase in the prices of other goods.
  - (d) Decrease in the outlay of sellers.
- Q.68) By consumer surplus, economists mean
- (a) The area inside the budget line above the price of the commodity
  - (b) The area between the average revenue and marginal revenue curves.
  - (c) The difference between the maximum amount that a person is willing to pay for a good and its market price.
  - (d) The difference between the market price and the supply curve
- Q.69) Elasticity of supply refers to the degree of responsiveness of supply of a good to changes in its:
- (a) Demand.

- (b) Price.
  - (c) Cost of production.
  - (d) State of technology
- Q.70) What will happen in the rice market if buyers are expecting higher rice prices in the near future?
- (a) The demand for rice will increase and the demand curve will shift to the right
  - (b) The demand for rice will decrease and the demand curve will shift to the left
  - (c) The demand for rice will be unaffected as it is a necessity
  - (d) The demand for wheat will increase and the demand curve will shift to the right
- Q.71) In the case of a Giffen good, the demand curve will usually be:
- (a) horizontal.
  - (b) downward-sloping to the right.
  - (c) vertical.
  - (d) upward-sloping to the right.
- Q.72) Which of the following statements is incorrect?
- (a) An indifference curve must be downward-sloping to the right.
  - (b) Convexity of a curve implies that the slope of the curve diminishes as one moves from left to right.
  - (c) The income elasticity for inferior goods to a consumer is positive
  - (d) The total effect of a change in the price of a good on its quantity demanded is called the price effect.
- Q.73) The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of
- (a) Operation of the law of demand.
  - (b) Consumer surplus enjoyed in hobbies and rare collections
  - (c) Exception to the law of diminishing utility.
  - (d) None of the above
- Q.74) Total utility is maximum when:
- (a) Marginal utility is zero.
  - (b) Marginal utility is at its highest point.
  - (c) Marginal utility is negative
  - (d) None of the above
- Q.75) Suppose a consumer's income increases from 30,000 to 36,000. As a result, the consumer increases her purchases of compact discs (CDs) from 25 CDs to 30 CDs. What is the consumer's income elasticity of demand for CDs? (Use Arc Elasticity Method)
- (a) 0.5
  - (b) 1.0
  - (c) 1.5
  - (d) 2.0
- Q.76) An indifference curve slopes down towards right since more of one commodity and less of another result in:
- (a) Same level of satisfaction.

- (b) Greater satisfaction.
  - (c) Maximum satisfaction.
  - (d) Any of the above
- Q.77) A decrease in price will result in an increase in total revenue if:
- (a) The percentage change in quantity demanded is less than the percentage change in price.
  - (b) The percentage change in quantity demanded is greater than the percentage change in price.
  - (c) Demand is inelastic.
  - (d) The consumer is operating along a linear demand curve at a point at which the price is very low and the quantity demanded is very high.
- Q.78) When the numerical value of cross elasticity between two goods is very high, it means
- (a) The goods are perfect complements and therefore have to be used together
  - (b) The goods are perfect substitutes and can be used with ease in place of one another
  - (c) There is a high degree of substitutability between the two goods
  - (d) The goods are neutral and therefore cannot be considered as substitutes
- Q.79) Which of the following is an incorrect statement?
- (a) When goods are substitutes, a fall in the price of one (ceteris paribus) leads to a fall in the quantity demanded of its substitutes.
  - (b) When commodities are complements, a fall in the price of one (other things being equal) will cause the demand of the other to rise
  - (c) As the income of the consumer increases, the demand for the commodity increases always and vice versa.
  - (d) When a commodity becomes fashionable people prefer to buy it and therefore its demand increases
- Q.80) If a good is a luxury, its income elasticity of demand is:
- (a) Positive and less than 1.
  - (b) Negative but greater than -1.
  - (c) Positive and greater than 1.
  - (d) Zero.
- Q.81) A movement along the demand curve for soft drinks is best described as:
- (a) An increase in demand.
  - (b) A decrease in demand.
  - (c) A change in quantity demanded.
  - (d) A change in demand.
- Q.82) If regardless of changes in its price, the quantity demanded of a good remains unchanged, then the demand curve for the good will be:
- (a) horizontal.
  - (b) Vertical.
  - (c) positively sloped.
  - (d) negatively sloped.



- Q.83) If the demand for a good is inelastic, an increase in its price will cause the total expenditure of the consumers of the good to:
- (a) Remain the same.
  - (b) Increase.
  - (c) Decrease.
  - (d) Any of these.
- Q.84) In the case of a straight line demand curve meeting the two axes, the price-elasticity of demand at the mid-point of the line would be:
- (a) 0
  - (b) 1
  - (c) 1.5
  - (d) 2
- Q.85) Identify the coefficient of price-elasticity of demand when the percentage increase in the quantity of a good demanded is smaller than the percentage fall in its price:
- (a) Equal to one.
  - (b) Greater than one.
  - (c) Less than one.
  - (d) Zero.
- Q.86) Suppose the price of Pepsi increases, we will expect the demand curve of Coca Cola to:
- (a) Shift towards left since these are substitutes
  - (b) Shift towards right since these are substitutes
  - (c) Remain at the same level
  - (d) None of the above
- Q.87) Given the following four possibilities, which one results in an increase in total consumer expenditure?
- (a) Demand is unitary elastic and price falls.
  - (b) Demand is elastic and price rises.
  - (c) Demand is inelastic and price falls.
  - (d) Demand is inelastic and prices rises.
- Q.88) Which of the following statements about price elasticity of supply is correct?
- (a) Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good
  - (b) Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price
  - (c) Price elasticity of supply in the long run would be different from that of the short run
  - (d) All the above
- Q.89) Suppose the demand for meals at a medium-priced restaurant is elastic. If the management of the restaurant is considering raising prices, it can expect a relatively:
- (a) Large fall in quantity demanded.
  - (b) Large fall in demand.
  - (c) Small fall in quantity demanded.
  - (d) Small fall in demand.

- Q.90) Demand for a good will tend to be more inelastic if it exhibits which of the following characteristics?
- (a) The good has many substitutes.
  - (b) The good is a luxury (as opposed to a necessity).
  - (c) The good is a small part of the consumer's income.
  - (d) There is a great deal of time for the consumer to adjust to the change in prices.
- Q.91) Which one is not an assumption of the theory of demand based on analysis of indifference curves?
- (a) Given scale of preferences as between different combinations of two goods.
  - (b) Diminishing marginal rate of substitution.
  - (c) Diminishing marginal utility of money
  - (d) Consumers would always prefer more of a particular good to less of it, other things remaining the same.
- Q.92) Suppose that workers in a steel plant managed to force a significant increase in their wage package. How would the new wage contract be likely to affect the market supply of steel, other things remaining the same?
- (a) Supply curve will shift to the left.
  - (b) Supply curve will shift to the right.
  - (c) Supply will not shift, but the quantity of cars produced per month will decrease.
  - (d) Supply will not shift, but the quantity of cars produced per month will increase.
- Q.93) An increase in the supply of a good is caused by :
- (a) Improvements in its production technology
  - (b) Fall in the prices of other goods which can be produced using the same inputs.
  - (c) Fall in the prices of factors of production used in its production.
  - (d) all of the above.
- Q.94) Conspicuous goods are also known as
- (a) Prestige goods
  - (b) Snob goods
  - (c) Veblen goods
  - (d) All of the above
- Q.95) As income increases, the consumer will go in for superior goods and consequently the demand for inferior goods will fall. This means inferior goods have
- (a) income elasticity of demand less than one
  - (b) negative income elasticity of demand
  - (c) zero income elasticity of demand
  - (d) unitary income elasticity of demand
- Q.96) With a fall in the price of a commodity:
- (a) Consumer's real income increases
  - (b) Consumer's real income decreases
  - (c) There is no change in the real income of the consumer
  - (d) None of the above

- Q.97) In the book market, the supply of books will decrease if any of the following occurs except
- (a) a decrease in the number of book publishers
  - (b) a decrease in the price of the book
  - (c) an increase in the future expected price of the book
  - (d) an increase in the price of paper used.
- Q.98) A point below the budget line of a consumer
- (a) Represents a combination of goods which costs the whole of consumer's income
  - (b) Represents a combination of goods which costs less than the consumer's income
  - (c) Represents a combination of goods which is unattainable to the consumer given his/her money income
  - (d) Represents a combination of goods which costs more than the consumers' income
- Q.99) A firm learns that the own price elasticity of a product it manufactures is 3.5. What would be the correct action for this firm to take if it wishes to raise its total revenue?
- (a) Lower the price because demand for the good is elastic.
  - (b) Raise the price because demand for the product is inelastic.
  - (c) Raise the price because demand is elastic.
  - (d) We need information in order to answer this question.
- Q.100) Point elasticity is useful for which of the following situations?
- (a) The bookstore is considering doubling the price of notebooks.
  - (b) A restaurant is considering lowering the price of its most expensive dishes by 50 percent.
  - (c) An auto producer is interested in determining the response of consumers to the price of cars being lowered by 100.
  - (d) None of the above.

## ANSWERS

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

**CHAPTER 3**  
**THEORY OF PRODUCTION & COST**

Max Marks 100

**QUESTIONS**

- Q.1) \_\_\_\_\_ involve actual expenditure of funds.
- a) Private Cost
  - b) Replacement Cost
  - c) Outlay Cost
  - d) Explicit Cost
- Q.2) Type of Economies of Scale
- a) National & International
  - b) External & Internal
  - c) Private & Public
  - d) Considerable & Non Considerable
- Q.3) There are \_\_\_ types of cost functions
- a) Three
  - b) One & Only one
  - c) Infinity
  - d) Two
- Q.4) Meet a chartered accountant has its own audit firm, In Sept 2024 Meet received an offer later from CA Kunal & Associates to work with them at a salary of 200000 per month. However Meet rejected this offer and continue his practice in own firm.  
Can Meet treat his rejection as cost & if yes state which
- a) No as there is no actual outflow or creation of liability this can't be treated as cost
  - b) Yes, this is an opportunity cost
  - c) Yes, this is an social cost
  - d) Both b & c
- Q.5) Opportunity cost is \_\_\_\_\_.
- (a) A cost that cannot be avoided.
  - (b) The cost incurred in the past before we make a decision about what to do in the future.
  - (c) That which we forgo or give up when we make a choice or a decision.
  - (d) The additional benefit of buying an additional unit of a product.
- Q.6) Given  $TC = 2000 + 15Q - 6Q^2 + Q^3$ . How much is TFC at  $Q = 2000$ ?
- (a) 2000
  - (b) 975
  - (c) 30,000
  - (d) Can't be determined
- Q.7) Which of the following is not a determinant of the firm's cost function?
- (a) Taxes
  - (b) The Production Function

- (c) The Price of the firm's output  
(d) Subsidies
- Q.8) Which of the following cost is fixed cost  
a) Fuel  
b) Watchman's wages  
c) Freight  
d) Bad Debts
- Q.9) Production function:  $Q = 4L^{1/2}K^{2/3}$  exhibits:  
(a) increasing returns to scale  
(b) decreasing returns to scale  
(c) constant returns to scale  
(d) increasing returns to a factor
- Q.10) Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns Where average product of variable factor is declining.  
Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.  
(a) (A) is true and (R) is false  
(b) Both (A) and (R) are true & (R) is the correct explanation of (A)  
(c) Both (A) and (R) are true & (R) is not the correct explanation of (A)  
(d) (A) is false and (R) is true
- Q.11) The concept of diminishing marginal returns implies that:  
(a) output cannot decrease as long as labour is substituted for capital  
(b) output decreases if either labour or capital is decreased  
(c) output increases but at a decreasing rate as the amount of labour is increased and the amount of capital remains fixed  
(d) if the capital stock is kept constant, output cannot increase even if more labour is available
- Q.12) The producer is in equilibrium at a point where the cost line is:  
(a) above the isoquant  
(b) below the isoquant  
(c) cutting the isoquant  
(d) tangent to isoquant
- Q.13) Which of the following statements is true of the relationship among the average cost functions?  
(a)  $ATC = AFC + AVC$   
(b)  $AVC = AFC + ATC$   
(c)  $AFC = ATC + AVC$   
(d)  $AFC = ATC - AVC$
- Q.14) Audit fees is type of \_\_\_ cost  
a) Explicit Cost                      b) Legal Cost  
c) Implicit Cost                      d) None of the above



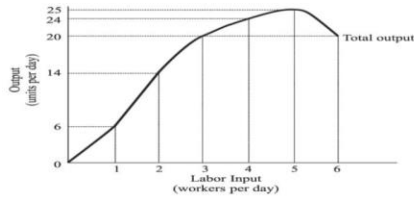
- Q.15) Which of the following is a FALSE statement?
- (a) The very long run focuses on the growth of productive capacity
  - (b) In the very long run, the productive capacity is assumed to be given
  - (c) In the very short run, shifts in aggregate demand determine how much output is produced
  - (d) Fluctuations in the rates of inflation and unemployment are important long-run issues
- Q.16) Accounting costs are also called:
- (a) Explicit cost
  - (b) Implicit Cost
  - (c) Either a or b
  - (d) None of these
- Q.17) In law of variable proportion how many stages are there:
- (a) 1
  - (b) 3
  - (c) 5
  - (d) None of these
- Q.18) At the point where a straight line from the origin is tangent to the TC curve, AC
- (a) is minimum
  - (b) equals MC
  - (c) equals AVC plus AFC
  - (d) is all of the above.
- Q.19) When the industry is in long-run equilibrium, the monopolistic competitor will produce at the lowest point on its LAC curve,
- (a) always
  - (b) never
  - (c) sometimes
  - (d) cannot say.
- Q.20) Cost incurred which has 'no relevance' to future planning is called \_\_\_\_
- (a) Marginal Cost
  - (b) Sunk Cost
  - (c) Book Cost
  - (d) Average Cost
- Q.21) Which of the following is incorrect formula?
- (a)  $TC = AC \times Q$
  - (b)  $\sum MC = TC$
  - (c)  $\sum MC = TVC$
  - (d)  $\sum MC + TFC = TC$
- Q.22) Short run marginal cost of the firm will be increasing when
- (a) average cost is decreasing
  - (b) total fixed cost is increasing
  - (c) Average fixed cost is decreasing
  - (d) None of these

- Q.23) Increasing return of scale is applied in  
(a) Long Run  
(b) Short Run  
(c) Both (a) and (b)  
(d) None of these
- Q.24) Marginal Cost can be directly derived from  
(a) Total Variable Cost  
(b) Total Fixed Cost  
(c) Average Cost  
(d) Average Fixed Cost
- Q.25) A firm's normal profit earned are included in \_\_\_  
(a) Explicit Cost  
(b) Implicit Cost  
(c) Variable Cost  
(d) Fixed Cost
- Q.26) Curve which are intersected by marginal cost curve at their minimum points is  
(a) AVC and AFC  
(b) AC and AVC  
(c) AC and AFC  
(d) AC and TVC
- Q.27) If the Long Run Average Cost Curve falls as output expands is due to :  
(a) The law of diminishing return  
(b) Diseconomies of scale  
(c) Economies of scale  
(d) None of these
- Q.28) Which one of the following is an external economies of scale in long run?  
(a) Risk bearing economies  
(b) Financial economies  
(c) Development of skill labour  
(d) None of the above
- Q.29) The falling part of long run average cost curve is tangent to the \_\_\_\_\_ of corresponding short run average cost curve(s).  
(a) falling part  
(b) rising part  
(c) minimum point  
(d) None of the above
- Q.30) Which of the following statements is correct?  
(a) Fixed costs vary with change in output.  
(b) If we add total variable cost and total fixed cost we get the average cost.  
(c) Marginal cost is the result of total cost divided by number of units produced.  
(d) Total cost is obtained by adding up the fixed cost and total variable cost.

- Q.31) Economic costs of production differ from accounting costs of production because
- (a) Economic costs include expenditures for hired resources while accounting costs do not.
  - (b) Accounting costs include opportunity costs which are deducted later to find paid out costs.
  - (c) Accounting costs include expenditures for hired resources while economic costs do not.
  - (d) Economic costs add the opportunity cost of a firm which uses its own resources.
- Q.32) Which of the following is considered production in Economics?
- (a) Tilling of soil.
  - (b) Singing a song before friends.
  - (c) Preventing a child from falling into a manhole on the road.
  - (d) Painting a picture for pleasure.
- Q.33) Identify the correct statement:
- (a) The average product is at its maximum when marginal product is equal to average product.
  - (b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
  - (c) Economies of scale arise only because of indivisibilities of factor proportions.
  - (d) Internal economies of scale can accrue when industry expands beyond optimum.
- Q.34) Which of the following statements is true?
- (a) Accumulation of capital depends solely on income of individuals.
  - (b) Savings can be influenced by government policies.
  - (c) External economies go with size and internal economies with location.
  - (d) The supply curve of labour is an upward slopping curve.
- Q.35) Which of the following is not a characteristic of land?
- (a) Its supply for the economy is limited.
  - (b) It is immobile.
  - (c) Its usefulness depends on human efforts.
  - (d) It is produced by our forefathers.
- Q.36) In the production of wheat, all of the following are variable factors that are used by the farmer except:
- (a) the seed and fertilizer used when the crop is planted.
  - (b) the field that has been cleared of trees and in which the crop is planted.
  - (c) the tractor used by the farmer in planting and cultivating not only wheat but also corn and barley.
  - (d) the number of hours that the farmer spends in cultivating the wheat fields.
- Q.37) The marginal product of a variable input is best described as:
- (a) total product divided by the number of units of variable input.
  - (b) the additional output resulting from a one unit increase in the variable input.
  - (c) the additional output resulting from a one unit increase in both the variable and fixed inputs.

- (d) the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.
- Q.38) Diminishing marginal returns implies:
- (a) decreasing average variable costs.
  - (b) decreasing marginal costs.
  - (c) increasing marginal costs.
  - (d) decreasing average fixed costs.
- Q.39) The short run, as economists use the phrase, is characterized by:
- (a) at least one fixed factor of production and firms neither leaving nor entering the industry.
  - (b) generally a period which is shorter than one year.
  - (c) all factors of production are fixed and no variable inputs.
  - (d) all inputs are variable and production is done in less than one year.
- Q.40) The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:
- (a) when total product is rising, average and marginal product may be either rising or falling.
  - (b) when marginal product is negative, total product and average product are falling.
  - (c) when average product is at a maximum, marginal product equals average product, and total product is rising.
  - (d) when marginal product is at a maximum, average product equals marginal product, and total product is rising.
- Q.41) The production function:
- (a) is the relationship between the quantity of inputs used and the resulting quantity of a product.
  - (b) Tells us the maximum attainable output from a given combination of inputs.
  - (c) Expresses the technological relationship between inputs and output of a product.
  - (d) All the above.
- Q.42) The efficient scale of production is the quantity of output that minimizes
- (a) average fixed cost.
  - (b) average total cost.
  - (c) average variable cost.
  - (d) marginal cost.
- Q.43) When marginal costs are below average total costs,
- (a) average fixed costs are rising.
  - (b) average total costs are falling.
  - (c) average total costs are rising.
  - (d) average total costs are minimized.
- Q.44) The most important function of an entrepreneur is to \_\_\_\_\_.
- (a) Innovate
  - (b) Bear the sense of responsibility
  - (c) Finance
  - (d) Earn profit

- Q.45) A firm's long-run average total cost curve is
- (a) Identical to its long-run marginal-cost curve.
  - (b) Also its long-run supply curve because it explains the relationship between price and quantity supplied.
  - (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
  - (d) Tangent to all the curves of short-run average total cost.
- Q.46) Use the following diagram to answer the question given below it



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

- (a) Six; fourth
  - (b) Six; third
  - (c) Six; fifth
  - (d) Six; sixth
- Q.47) Diminishing marginal returns for the first four units of a variable input are exhibited by the total product sequence:
- (a) 50, 50, 50, 50
  - (b) 50, 110, 180, 260
  - (c) 50, 100, 150, 200
  - (d) 50, 90, 120, 140
- Q.48) Which of the following is the best definition of "production function"?
- (a) The relationship between market price and quantity supplied.
  - (b) The relationship between the firm's total revenue and the cost of production.
  - (c) The relationship between the quantities of inputs needed to produce a given level of output.
  - (d) The relationship between the quantity of inputs and the firm's marginal cost of production.

Diagram for Q.49 to Q.51

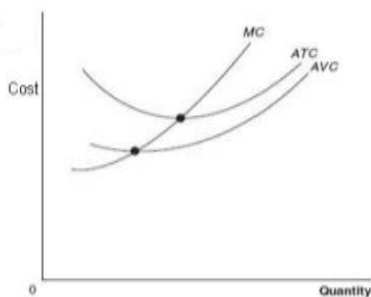
Hours of Labour	Total Output	Marginal Product
0	-	-
1	100	100
2	-	80
3	240	-

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

- Q.49) What is the total output when 2 hours of labour are employed?
- (a) 80
  - (b) 100
  - (c) 180
  - (d) 200
- Q.50) What is the marginal product of the third hour of labour?
- (a) 60
  - (b) 80
  - (c) 100
  - (d) 240
- Q.51) What is the average product of the first three hours of labour?
- (a) 60
  - (b) 80
  - (c) 100
  - (d) 240
- Q.52) The “law of diminishing returns” applies to:
- (a) the short run, but not the long run.
  - (b) the long run, but not the short run.
  - (c) both the short run and the long run.
  - (d) neither the short run nor the long run.
- Q.53) Which of the following is a variable cost in the short run?
- (a) rent of the factory.
  - (b) wages paid to the factory labour.
  - (c) interest payments on borrowed financial capital.
  - (d) payment on the lease for factory equipment.
- Q.54) The efficient scale of production is the quantity of output that minimizes
- (a) average fixed cost.
  - (b) average total cost.
  - (c) average variable cost.
  - (d) marginal cost.
- Q.55) A fixed input is defined as
- (a) That input whose quantity can be quickly changed in the short run, in response to the desire of the company to change its production.
  - (b) That input whose quantity cannot be quickly changed in the short run, in response to the desire of the company to change its production.
  - (c) That input whose quantities can be easily changed in response to the desire to increase or reduce the level of production.
  - (d) That input whose demand can be easily changed in response to the desire to increase or reduce the level of production.
- Q.56) Suppose the first four units of a variable input generate corresponding total outputs of 200, 350, 450, 500. The marginal product of the third unit of input is:

- (a) 50
- (b) 100
- (c) 150
- (d) 200

- Q.57) In the long run, if a very small factory were to expand its scale of operations, it is likely that it would initially experience
- (a) an increase in pollution level.
  - (b) diseconomies of scale.
  - (c) economies of scale.
  - (d) constant returns to scale.
- Q.58) Diminishing returns occur:
- (a) when units of a variable input are added to a fixed input and total product falls.
  - (b) when units of a variable input are added to a fixed input and marginal product falls.
  - (c) when the size of the plant is increased in the long run.
  - (d) when the quantity of the fixed input is increased and returns to the variable input falls.
- Q.59) To economists, the main difference between the short run and the long run is that:
- (a) In the short run all inputs are fixed, while in the long run all inputs are variable.
  - (b) In the short run the firm varies all of its inputs to find the least-cost combination of inputs.
  - (c) In the short run, at least one of the firm's input levels is fixed.
  - (d) In the long run, the firm is making a constrained decision about how to use existing plant and equipment efficiently.
- Q.60) In figure below, possible reason why the average variable cost curve approaches the average total cost curve as output rises is:



- (a) Fixed costs are falling while total costs are rising at rising output.
  - (b) Total costs are rising and average costs are also rising.
  - (c) Marginal costs are above average variable costs as output rises.
  - (d) Average fixed costs are falling as output rises.
- Q.61) Marginal product, mathematically, is the slope of the
- (a) total product curve.
  - (b) average product curve.
  - (c) marginal product curve.
  - (d) implicit product curve.

- Q.62) Which of the following statements is true?
- (a) After the inflection point of the production function, a greater use of the variable input induces a reduction in the marginal product.
  - (b) Before reaching the inevitable point of decreasing marginal returns, the quantity of output obtained can increase at an increasing rate.
  - (c) The first stage corresponds to the range in which the AP is increasing as a result of utilizing increasing quantities of variable inputs.
  - (d) All the above.
- Q.63) Average product is defined as
- (a) total product divided by the total cost.
  - (b) total product divided by marginal product.
  - (c) total product divided by the number of units of variable input.
  - (d) marginal product divided by the number of units of variable input.
- Q.64) The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:
- (a) the technology is changing.
  - (b) there must be some inputs whose quantity is kept fixed.
  - (c) we consider only physical inputs and not economic profitability in monetary terms.
  - (d) the technology is given and stable.
- Q.65) In describing a given production technology, the short run is best described as lasting:
- (a) up to six months from now.
  - (b) up to five years from now.
  - (c) as long as all inputs are fixed.
  - (d) as long as at least one input is fixed.
- Q.66) If the marginal product of labour is below the average product of labour, it must be true that:
- (a) the marginal product of labour is negative.
  - (b) the marginal product of labour is zero.
  - (c) the average product of labour is falling.
  - (d) the average product of labour is negative.
- Q.67) The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?
- (a) Diseconomies of scale.
  - (b) Diminishing returns.
  - (c) The difficulties encountered in coordinating the many activities of a large firm.
  - (d) The increase in productivity that results from specialization
- Q.68) Which of the following statements is correct?
- (a) When the average cost is rising, the marginal cost must also be rising.
  - (b) When the average cost is rising, the marginal cost must be falling.
  - (c) When the average cost is rising, the marginal cost is above the average cost.
  - (d) When the average cost is falling, the marginal cost must be rising



- Q.69) Marginal cost is defined as:
- (a) the change in total cost due to a one unit change in output.
  - (b) total cost divided by output.
  - (c) the change in output due to a one unit change in an input.
  - (d) total product divided by the quantity of input.
- Q.70) A firm has a variable cost of ₹ 1000 at 5 units of output. If fixed costs are ₹ 400, what will be the average total cost at 5 units of output?
- (a) 280
  - (b) 60
  - (c) 120
  - (d) 1400
- Q.71) An iso quant shows
- (a) All the alternative combinations of two inputs that can be produced by using a given set of output fully and in the best possible way.
  - (b) All the alternative combinations of two products among which a producer is Indifferent because they yield the same profit.
  - (c) All the alternative combinations of two inputs that yield the same total product.
  - (d) Both (b) and (c)
- Q.72) Which of the following statements is false in respect of fixed cost of a firm?
- (a) As the fixed inputs for a firm cannot be changed in the short run, the TFC are constant, except when the prices of the fixed inputs change.
  - (b) TFC continues to exist even when production is stopped in the short run, but they exist in the long run even when production is not stopped.
  - (c) Total Fixed Costs (TFC) can be defined as the total sum of the costs of all the fixed inputs associated with production in the short run.
  - (d) In the short run, a firm's fixed cost cannot be escaped even when production is stopped.
- Q.73) A firm's average total cost is ₹ 300 at 5 units of output and ₹ 320 at 6 units of output. The marginal cost of producing the 6th unit is:
- (a) 20
  - (b) 120
  - (c) 320
  - (d) 420
- Q.74) The positively sloped (i.e. rising) part of the long run average total cost curve is due to which of the following?
- (a) Diseconomies of scale.
  - (b) Increasing returns.
  - (c) The firm being able to take advantage of large-scale production techniques as it expands its output.
  - (d) The increase in productivity that results from specialization.

- Q.75) Which of the following statements concerning the long-run average cost curve is false?
- (a) It represents the least-cost input combination for producing each level of output.
  - (b) It is derived from a series of short-run average cost curves.
  - (c) The short-run cost curve at the minimum point of the long-run average cost curve represents the least-cost plant size for all levels of output.
  - (d) As output increases, the amount of capital employed by the firm increases along the curve.

Diagram for Q.76 to Q.78

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

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- Q.76) The average fixed cost of 2 units of output is:
- (a) 80
  - (b) 85
  - (c) 120
  - (d) 205
- Q.77) The marginal cost of the sixth unit of output is:
- (a) 133
  - (b) 75
  - (c) 80
  - (d) 450
- Q.78) Diminishing marginal returns start to occur between units:
- (a) 2 and 3.
  - (b) 3 and 4.
  - (c) 4 and 5.
  - (d) 5 and 6.
- Q.79) With which of the following is the concept of marginal cost closely related?
- (a) Variable cost.
  - (b) Fixed cost.
  - (c) Opportunity cost.
  - (d) Economic cost.
- Q.80) Which of the following is an example of "explicit cost"?
- (a) The wages a proprietor could have made by working as an employee of a large firm.
  - (b) The income that could have been earned in alternative uses by the resources owned by the firm.
  - (c) The payment of wages by the firm.
  - (d) The normal profit earned by a firm.



- Q.89) The production function is a relationship between a given combination of inputs and:
- (a) another combination that yields the same output.
  - (b) the highest resulting output.
  - (c) the increase in output generated by one-unit increase in one output.
  - (d) all levels of output that can be generated by those inputs.
- Q.90) The average product of labour is maximized when marginal product of labour:
- (a) equals the average product of labour.
  - (b) equals zero.
  - (c) is maximized.
  - (d) none of the above.
- Q.91) What is a production function?
- (a) Technical relationship between physical inputs and physical output.
  - (b) Relationship between fixed factors of production and variable factors of production.
  - (c) Relationship between a factor of production and the utility created by it.
  - (d) Relationship between quantity of output produced and time taken to produce the output.
- Q.92) Laws of production does not include .....
- (a) returns to scale.
  - (b) law of diminishing returns to a factor.
  - (c) law of variable proportions.
  - (d) least cost combination of factors.
- Q.93) Economies of scale exist because as a firm increases its size in the long run:
- (a) Labour and management can specialize in their activities more.
  - (b) As a larger input buyer, the firm can get finance at lower cost and purchase inputs at a lower per unit cost.
  - (c) The firm can afford to employ more sophisticated technology in production.
  - (d) All of these
- Q.94) In the short run, the firm's product curves show that
- (a) Total product begins to decrease when average product begins to decrease but continues to increase at a decreasing rate.
  - (b) When marginal product is equal to average product, average product is decreasing but at its highest.
  - (c) When the marginal product curve cuts the average product curve from below, the average product is equal to marginal product.
  - (d) In stage two, total product increases at a diminishing rate and reaches maximum at the end of this stage.
- Q.95) In the third of the three stages of production:
- (a) the marginal product curve has a positive slope.
  - (b) the marginal product curve lies completely below the average product curve.
  - (c) total product increases.
  - (d) marginal product is positive.

- Q.96) A firm's long-run average total cost curve is.
- (a) Identical to its long-run marginal-cost curve as all factors are variable.
  - (b) Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run.
  - (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
  - (d) Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output
- Q.97) Which of the following statements describes increasing returns to scale?
- (a) Doubling of all inputs used leads to doubling of the output.
  - (b) Increasing the inputs by 50% leads to a 25% increase in output.
  - (c) Increasing inputs by  $\frac{1}{4}$  leads to an increase in output of  $\frac{1}{3}$ .
  - (d) None of the above.
- Q.98) The marginal cost for a firm of producing the 9th unit of output is ₹ 20. Average cost at the same level of output is ₹ 15. Which of the following must be true?
- (a) marginal cost and average cost are both falling
  - (b) marginal cost and average cost are both rising
  - (c) marginal cost is rising and average cost is falling
  - (d) it is impossible to tell if either of the curves are rising or falling
- Q.99) Implicit cost can be defined as
- (a) Money payments made to the non-owners of the firm for the self-owned factors employed in the business and therefore not entered into books of accounts.
  - (b) Money not paid out to the owners of the firm for the self-owned factors employed in a business and therefore not entered into books of accounts.
  - (c) Money payments which the self-owned and employed resources could have earned in their next best alternative employment and therefore entered into books of accounts.
  - (d) Money payments which the self-owned and employed resources earn in their best use and therefore entered into book of accounts
- Q.100) Which of the following statements is incorrect?
- (a) The LAC curve is also called the planning curve of a firm.
  - (b) Total revenue = price per unit × number of units sold.
  - (c) Opportunity cost is also called alternative cost.
  - (d) If total revenue is divided by the number of units sold we get marginal revenue.

## ANSWERS

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

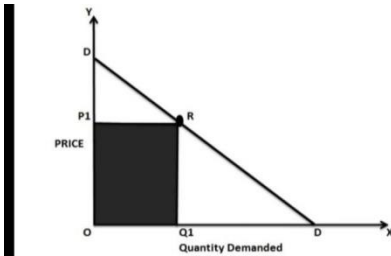
**CHAPTER 4**  
**PRICE DETERMINATION IN DIFFERENT MARKETS**

Max Marks 100

**Questions**

- Q.1) Which of the following is true of an imperfect market structure?
- (a) Participants in the market have little or no control over outcome in the market.
  - (b) Consumer surplus is maximized.
  - (c) The maximization of producer surplus may lead to a loss of net benefit for society.
  - (d) Imperfect market structures include monopolies but not cartels.
- Q.2) Marginal revenue of a firm is constant throughout under:
- (a) Perfect Competition
  - (b) Monopolistic Competition
  - (c) Oligopoly
  - (d) All the above
- Q.3) 'Interdependence Between Firms' is a feature of which type of market form:
- (a) Oligopoly
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) Perfect Competition
- Q.4) A monopolist is able to maximize his profits when:
- (a) his output is maximum
  - (b) he charges a high price
  - (c) his average cost is minimum
  - (d) his marginal cost is equal to marginal revenue
- Q.5) For a Price taking firm:
- (a) Marginal revenue is less than Price
  - (b) Marginal revenue is equal to Price
  - (c) The relationship between behavior marginal revenue and Price is indeterminate
  - (d) Marginal revenue is greater than price
- Q.6) Perfectly Competitive firm and industry are both in long run equilibrium when:
- (a)  $P = MR = SMC = LMC$
  - (b)  $P = MR =$  Lowest point on the LAC
  - (c)  $P = MR = SAC = LAC$
  - (d) All of the above
- Q.7) In economics, generally the classification of the markets is made on the basis of:
- (a) Time
  - (b) Geographic area
  - (c) Volume of business
  - (d) All of these

Q.8) In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion OP1RQ1 is \_\_\_\_.



- (a) Total Revenue (TR)  
 (b) Marginal Revenue (MR)  
 (c) Total Cost (TC)  
 (d) None of these
- Q.9) Which of the following is NOT a conclusion about market allocations of commodities causing pollution externalities?
- (a) The prices of products responsible for pollution are too high.  
 (b) The output of the commodity is too large.  
 (c) Recycling and reuse of the polluting substances are discouraged since release into the environment is so inefficiently cheap.  
 (d) Too much pollution is produced.
- Q.10) Monopolistic competition constitutes:
- (a) Single firm producing close substitutes  
 (b) Many firms producing close substitutes  
 (c) Many firms producing differentiated substitutes  
 (d) Few firms producing differentiated substitutes
- Q.11) Which of the following is considered as a disadvantage of allocating resources using the market system?
- (a) Income will tend to be unevenly distributed.  
 (b) People do not get goods of their choice.  
 (c) Men of Initiative and enterprise are not rewarded.  
 (d) Profits will tend to be low
- Q.12) Indifference Curve analysis is superior to utility analysis:
- (a) It dispenses with the assumption of measurability  
 (b) It segregates income effect and substitution effect  
 (c) It does not assume constancy of marginal utility of money  
 (d) All of the above
- Q.13) Price discrimination will be profitable only if the elasticity of demand in different markets in which the total market has been divided is:
- (a) uniform  
 (b) different  
 (c) less  
 (d) zero



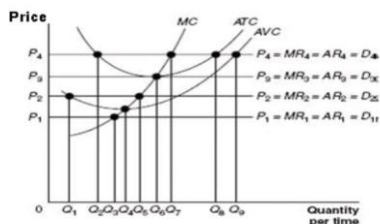
- Q.14) Price Rigidity explained by Sweezy's model is related to which market form:
- (a) Monopoly
  - (b) Oligopoly
  - (c) Monopolistic competition
  - (d) Perfect Competition
- Q.15) Consumers get maximum variety of goods under:
- (a) Perfect Competition
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) None of these
- Q.16) Agricultural goods markets depict characteristics close to:
- (a) Perfect competition
  - (b) Oligopoly
  - (c) Monopoly
  - (d) Monopolistic competition
- Q.17) Pears, Liril & Dove are example of
- (a) Perfect Competition
  - (b) Monopoly
  - (c) Monopolistic Competition
  - (d) None of these
- Q.18) The market price cannot be influenced by a seller under:
- (a) Monopolistic Competition
  - (b) Monopoly
  - (c) Perfect Competition
  - (d) All the above
- Q.19) The Pure monopolist in the long run can make pure profit due to :
- (a) High Selling Price
  - (b) Advertising
  - (c) Low LAC Cost
  - (d) Blocked entry
- Q.20) How do monopoly arises:
- (a) Strategic Control over scarce resources
  - (b) Governments granting exclusive rights to produce and sell a good or a service
  - (c) Stringent legal and regulatory requirements effectively discourages entry of new firms without being specifically prohibited
  - (d) All of the above
- Q.21) Price discrimination cannot persist Under which market form –
- (a) Perfect competition
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) None of these

- Q.22) AR is different from MR under which form of market :
- (a) Monopoly
  - (b) Monopolistic competition
  - (c) Perfect Competition
  - (d) Both a and b
- Q.23) In Monopoly Cross elasticity of Product is :
- (a) Zero
  - (b) High
  - (c) Infinity
  - (d) None of these
- Q.24) Monopolistic Competition theory architect was
- (a) Roden
  - (b) Marx
  - (c) J R Hicks
  - (d) Chamberlin
- Q.25) In which form of market Cartels can be formed:
- (a) Perfect competition
  - (b) Monopoly
  - (c) Oligopoly
  - (d) None of these
- Q.26) If the monopolist incurs losses in the short run then in the long run:
- (a) It will stay in the business
  - (b) Go out of business
  - (c) Will break even
  - (d) Any of the above is possible
- Q.27) Monopsony market and monopoly market when combined is called:
- (a) Oligopoly market
  - (b) Monopolistic market
  - (c) Duopoly market
  - (d) Bilateral Money Market
- Q.28) Stock Exchange is an example of \_\_
- (a) Forward market
  - (b) Regulated market
  - (c) Spot market
  - (d) None of these
- Q.29) Which of the following is not a characteristic of monopolistic competition?
- (a) Ease of entry into the industry
  - (b) Product differentiation
  - (c) A homogeneous Product
  - (d) A relatively large number of sellers

- Q.30) In long-run equilibrium, the pure monopolist (as opposed to the perfectly competitive firm) can make pure profits because of
- (a) blocked entry
  - (b) high selling prices
  - (c) low LAC costs
  - (d) advertising.
- Q.31) When the industry is in long-run equilibrium, the monopolistic competitor will produce at the lowest point on its LAC curve,
- (a) always
  - (b) never
  - (c) sometimes
  - (d) cannot say.
- Q.32) In the kinked demand curve models, the oligopolists
- (a) recognize their interdependence
  - (b) do not collude
  - (c) tend to keep prices constant
  - (d) all of the above
- Q.33) Which of the following is true at equilibrium in monopolistic competition?
- (a) Price is greater than marginal cost
  - (b) Price is greater than marginal revenue
  - (c) Both (A) and (B)
  - (d) Price is equal to marginal revenue
- Q.34) Telecom Industry is an example of
- (a) Monopoly
  - (b) Perfect Competition
  - (c) Oligopoly
  - (d) Monopolistic competition
- Q.35) On the basis of nature of transaction the market is classified into
- (a) Regulated and Unregulated market
  - (b) Wholesale and Retail market
  - (c) Spot and future Market
  - (d) None of these
- Q.36) Total Revenue is maximise when total revenue is \_\_\_\_
- (a) 1
  - (b) 0
  - (c) High
  - (d) None of these
- Q.37) Third degree Price discrimination can be explained through example of
- (a) dumping
  - (b) Charging different Prices for domestic and commerced use
  - (c) Lower Price in ratioing for senior citizen
  - (d) All of the above

- Q.38) Long Run Period normal price for a competitive firm will be :
- (a) Equal MC of Production only
  - (b) Equal TC of Production only
  - (c) Equal AC and MC of Production
  - (d) None of these
- Q.39) Monopolistic Competition has features of
- (a) Monopoly and competition with features of monopoly predominating
  - (b) Monopoly and competition with feature of Competition predominating
  - (c) Monopoly but not competition
  - (d) None of these
- Q.40) In case of Perfect Competition how much selling cost are incurred:
- (a) Negligible
  - (b) Zero
  - (c) Very high
  - (d) Very less
- Q.41) Marginal revenue is equal to price in which form of market:
- (a) Perfect competition
  - (b) Monopoly
  - (c) Oligopoly
  - (d) Monopolistic Competition
- Q.42) In Oligopoly the demand curve is :
- (a) Indeterminate
  - (b) Highly Elastic
  - (c) Less Elastic
  - (d) Perfectly Elastic
- Q.43) Price elasticity of demand under monopoly is \_\_\_\_\_
- (a) Infinity
  - (b) Equal to one
  - (c) Less than one
  - (d) None of these
- Q.44) There is an inverse relation between price and demand for the products of a firm under:
- (a) Monopoly only
  - (b) Monopolistic Competition only
  - (c) Both Monopoly and Monopolistic Competition
  - (d) Perfect competition
- Q.45) Nuclear Power represents which type of market structure :
- (a) Government Monopoly
  - (b) Perfect Competition
  - (c) Monopolistic Competition
  - (d) Oligopoly

- Q.46) Price discrimination is desirable as :
- It promotes equity
  - It makes production feasible
  - Both (a) and (b)
  - None of these
- Q.47) Which of the following can be classified as Oligopoly Market :
- Wheat Farming
  - Clothing Industry
  - Restaurant Industry
  - Long distance Telephone Service
- Q.48) Price varies by attributes such as location or by Customer Segment is \_\_\_\_\_ degree of Price Discrimination.
- First
  - Second
  - Third
  - Fourth
- Q.49) Natural Monopoly arises when
- There is enormous goodwill enjoyed by a firm.
  - There are stringent legal and regulatory requirement.
  - There are very large Economies of Scale.
  - There are Business Combinations and Cartels.
- Q.50) Weekly market is example of \_\_\_\_\_ Market:
- Regulated Market
  - Spot Market
  - Forward Market
  - Unregulated Market
- Q.51) At price  $P_1$ , the firm in the figure would produce



- Zero output
  - Q3.
  - Q5.
  - Q6.
- Q.52) Secular period is also known as
- very short period
  - short period
  - very long period
  - long period

- Q.53) Which of the following markets would most closely satisfy the requirements for a perfectly competitive market?
- (a) Electricity
  - (b) Cable television
  - (c) Cola
  - (d) Milk
- Q.54) Which of the following statements is accurate regarding a perfectly competitive firm?
- (a) Demand curve is downward sloping
  - (b) The demand curve always lies above the marginal revenue curve
  - (c) Average revenue need not be equal to price
  - (d) Price is given and is determined by the equilibrium in the entire market
- Q.55) When price is less than average variable cost at the profit-maximising level of output, a firm should:
- (a) produce where marginal revenue equals marginal cost if it is operating in the short run.
  - (b) produce where marginal revenue equals marginal cost if it is operating in the long run.
  - (c) shut down, since it will lose nothing in that case.
  - (d) shut down, since it cannot even cover its variable costs if it stays in business.
- Q.56) One characteristic not typical of oligopolistic industry is
- (a) horizontal demand curve.
  - (b) too much importance to non-price competition.
  - (c) price leadership.
  - (d) a small number of firms in the industry.
- Q.57) The firm in a perfectly competitive market is a price-taker. This designation as a price-taker is based on the assumption that -
- (a) the firm has some, but not complete, control over its product price.
  - (b) there are so many buyers and sellers in the market that any individual firm cannot affect the market.
  - (c) each firm produces a homogeneous product.
  - (d) there is easy entry into or exit from the market place.
- Q.58) The long-run equilibrium outcomes in monopolistic competition and perfect competition are similar, because in both market structures
- (a) the efficient output level will be produced in the long run.
  - (b) firms will be producing at minimum average cost.
  - (c) firms will only earn a normal profit.
  - (d) firms realise all economies of scale.
- Q.59) Average revenue curve is also known as:
- (a) Profit Curve
  - (b) Demand Curve
  - (c) Average Cost Curve
  - (d) Indifference Curve

- Q.60) Which of the following is the distinguishing characteristic of oligopolies?
- (a) A standardized product
  - (b) The goal of profit maximization
  - (c) The interdependence among firms
  - (d) Downward-sloping demand curves faced by firms.
- Q.61) Which of the following is not a condition of perfect competition?
- (a) A large number of firms.
  - (b) Perfect mobility of factors.
  - (c) Informative advertising to ensure that consumers have good information.
  - (d) Freedom of entry and exit into and out of the market.
- Q.62) With a given supply curve, a decrease in demand causes
- (a) an overall decrease in price but an increase in equilibrium quantity.
  - (b) an overall increase in price but a decrease in equilibrium quantity.
  - (c) an overall decrease in price and a decrease in equilibrium quantity.
  - (d) no change in overall price but a reduction in equilibrium quantity.
- Q.63) Which of the following is not a characteristic of a "price-taker"?
- (a)  $TR = P \times Q$
  - (b)  $AR = \text{Price}$
  - (c) Negatively – sloped demand curve
  - (d)  $\text{Marginal Revenue} = \text{Price}$
- Q.64) Which is the first order condition for the profit of a firm to be maximum?
- (a)  $AC = MR$
  - (b)  $MC = MR$
  - (c)  $MR = AR$
  - (d)  $AC = AR$
- Q.65) Suppose that a sole proprietorship is earning total revenues of 1,00,000 and is incurring explicit costs of 75,000. If the owner could work for another company for 30,000 a year, we would conclude that :
- (a) The firm is incurring an economic loss.
  - (b) Implicit costs are 25,000.
  - (c) The total economic costs are 1,00,000.
  - (d) The individual is earning an economic profit of 25,000.
- Q.66) Assume that when price is ` 20, the quantity demanded is 9 units, and when price is 19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 units to 10 units.
- (a) 20
  - (b) 19
  - (c) 10
  - (d) 1

- Q.67) Marginal Revenue is equal to:
- (a) The change in price divided by the change in output.
  - (b) The change in quantity divided by the change in price.
  - (c) The change in  $P \times Q$  due to a one unit change in output.
  - (d) Price, but only if the firm is a price searcher.
- Q.68) Which of the following is not an essential condition of pure competition?
- (a) Large number of buyers and sellers
  - (b) Homogeneous product
  - (c) Freedom of entry
  - (d) Absence of transport cost
- Q.69) With a given supply curve, a decrease in demand causes
- (a) an overall decrease in price but an increase in equilibrium quantity.
  - (b) an overall increase in price but a decrease in equilibrium quantity.
  - (c) an overall decrease in price and a decrease in equilibrium quantity.
  - (d) no change in overall price but a reduction in equilibrium quantity.
- Q.70) Price-taking firms, i.e., firms that operate in a perfectly competitive market, are said to be “small” relative to the market. Which of the following best describes this smallness?
- (a) The individual firm must have fewer than 10 employees.
  - (b) The individual firm faces a downward-sloping demand curve.
  - (c) The individual firm has assets of less than ` 20 lakhs.
  - (d) The individual firm is unable to affect market price through its output decisions.
- Q.71) Discriminating monopoly implies that the monopolist charges different prices for his commodity:
- (a) from different groups of consumers
  - (b) for different uses
  - (c) at different places
  - (d) any of the above.
- Q.72) The kinked demand curve model of oligopoly assumes that
- (a) the response (of consumers) to a price increase is less than the response to a price decrease.
  - (b) the response (of consumers) to a price increase is more than the response to a price decrease.
  - (c) the elasticity of demand is constant regardless of whether price increases or decreases.
  - (d) the elasticity of demand is perfectly elastic if price increases and perfectly inelastic if price decreases.
- Q.73) The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as
- (a) Monopolistically competitive
  - (b) a monopoly
  - (c) an oligopoly
  - (d) Perfectly competitive



- Q.74) A market structure in which many firms sell products that are similar but not identical is known as
- (a) monopolistic competition
  - (b) monopoly
  - (c) perfect competition
  - (d) oligopoly
- Q.75) In a very short period market:
- (a) the supply is fixed
  - (b) the demand is fixed
  - (c) demand and supply are fixed
  - (d) none of the above
- Q.76) Average revenue is the revenue earned
- (a) per unit of input
  - (b) per unit of output
  - (c) different units of input
  - (d) different units of output
- Q.77) When  $e > 1$  then MR is
- (a) zero
  - (b) negative
  - (c) positive
  - (d) One
- Q.78) A Monopolist is a
- (a) price-maker
  - (b) price-taker
  - (c) price-adjuster
  - (d) None of the above
- Q.79) Stock exchange market is an example of
- (a) unregulated market
  - (b) regulated market
  - (c) spot market
  - (d) none of the above
- Q.80) Under \_\_\_\_\_ the monopolist will fix a price which will take away the entire consumers' surplus.
- (a) second degree of price discrimination
  - (b) first degree of price discrimination
  - (c) third degree of price discrimination
  - (d) none of the above.
- Q.81) The firm and the industry are one and the same in \_\_\_\_\_
- (a) Perfect competition
  - (b) Monopolistic competition

- (c) Duopoly  
(d) Monopoly
- Q.82) If the average cost is higher than the average revenue then the firm incurs \_\_\_\_\_
- (a) Normal profit  
(b) Abnormal profit  
(c) Loss  
(d) No profit, no loss
- Q.83) Which of the following statements is correct?
- (a) Price rigidity is an important feature of monopoly.  
(b) Selling costs are possible under perfect competition.  
(c) Under perfect competition factors of production do not move freely as there are legal restrictions.  
(d) An industry consists of many firms.
- Q.84) Conditions for equilibrium of a firm are:
- (a)  $MR = MC$   
(b) MC should cut MR from below.  
(c)  $MR = AR$  and MC should cut MR from below.  
(d)  $MR = MC$  and MC should have a positive slope.
- Q.85) Assume that when Price is 10, the quantity demanded is 5 units and when Price is 12 the quantity demanded is 4 units. Based on this information, what is the Marginal Revenue resulting from increase in output from 4 units to 5 units.
- (a) 5  
(b) 4  
(c) 2  
(d) 3
- Q.86) Which of the following statements is incorrect?
- (a) Under monopoly there is no difference between a firm and an industry.  
(b) A monopolist may restrict the output and raise the price.  
(c) Commodities offered for sale under a perfect competition will be heterogeneous.  
(d) Product differentiation is peculiar to monopolistic competition.
- Q.87) The demand curve of a monopoly firm will be \_\_\_\_\_
- (a) Upward sloping  
(b) Downward sloping  
(c) Horizontal  
(d) Vertical
- Q.88) The condition for pure competition is
- (a) large number of buyer and seller, free entry and exist  
(b) homogeneous product  
(c) both (a) and (b)  
(d) large number of buyer and seller, homogeneous product, perfect knowledge about the product

- Q.89) Generally, perishable goods like butter, eggs, milk, vegetables etc., will have
- (a) regional market
  - (b) local market
  - (c) national market
  - (d) none of the above
- Q.90) In Economics, the term 'market' refers to a:
- (a) place where buyer and seller bargain a product or service for a price
  - (b) place where buyer does not bargain
  - (c) place where seller does not bargain
  - (d) none of the above
- Q.91) When  $e < 1$  then MR is
- (a) negative
  - (b) zero
  - (c) positive
  - (d) one
- Q.92) AR can be symbolically written as:
- (a)  $MR / Q$
  - (b) Price  $\times$  quantity
  - (c)  $TR / Q$
  - (d) none of the above
- Q.93) When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is
- (a) more than the price charged by either monopoly or a competitive market
  - (b) less than the price charged by either monopoly or a competitive market
  - (c) more than the price charged by a monopoly and less than the price charged by a competitive market
  - (d) less than the price charged by a monopoly and more than the price charged by a competitive market.
- Q.94) In the long-run equilibrium of a competitive market, firms operate at
- (a) the intersection of the marginal cost and marginal revenue
  - (b) their efficient scale
  - (c) zero economic profit
  - (d) all of these answers are correct
- Q.95) When \_\_\_\_ there will be allocative efficiency meaning thereby that the cost of the last unit is exactly equal to the price consumers are willing to pay for it and so that the right goods are being sold to the right people at the right price.
- (a)  $MC = MR$
  - (b)  $MC = AC$
  - (c)  $MC = AR$
  - (d)  $AR = MR$

- Q.96) When\_\_\_ we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.
- (a)  $AC = AR$
  - (b)  $MC = AC$
  - (c)  $MC = MR$
  - (d)  $AR = MR$
- Q.97) A firm encounters its “shutdown point” when:
- (a) average total cost equals price at the profit-maximising level of output.
  - (b) average variable cost equals price at the profit-maximising level of output.
  - (c) average fixed cost equals price at the profit-maximising level of output.
  - (d) marginal cost equals price at the profit-maximising level of output.
- Q.98) Suppose that, at the profit-maximizing level of output, a firm finds that market price is less than average total cost, but greater than average variable cost. Which of the following statements is correct?
- (a) The firm should shutdown in order to minimise its losses.
  - (b) The firm should raise its price enough to cover its losses.
  - (c) The firm should move its resources to another industry.
  - (d) The firm should continue to operate in the short run in order to minimize its losses.
- Q.99) Monopolistic competition differs from perfect competition primarily because
- (a) in monopolistic competition, firms can differentiate their products.
  - (b) in perfect competition, firms can differentiate their products.
  - (c) in monopolistic competition, entry into the industry is blocked.
  - (d) in monopolistic competition, there are relatively few barriers to entry.
- Q.100) Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?
- (a) Price will increase; quantity cannot be determined.
  - (b) Price will decrease; quantity cannot be determined.
  - (c) Quantity will increase; price cannot be determined.
  - (d) Quantity will decrease; price cannot be determined.

## ANSWERS

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



- (c) Coincident (d) All of the above

- Q.9) Cost of living increase when business cycle is operating at :  
(a) Lowest point  
(b) Peak  
(c) Contracting  
(d) Expanding
- Q.10) Information Technology bubble burst of 2000 is an example of :  
(a) Business Cycle  
(b) Consumer Sovereignty  
(c) Freedom of choice  
(d) None of these
- Q.11) Variables that change before the real output changes are called:  
(a) Lagging indicator  
(b) Leading Indicator  
(c) Concurrent Indicator  
(d) None of these
- Q.12) Economy's historical performance was reflected by:  
(a) Lagging indicating  
(b) Leading indicating  
(c) Either (a) or (b)  
(d) None of these
- Q.13) Fluctuations in Economic Activities according to Keynes due to  
(a) Innovation  
(b) Changes in Money supply  
(c) Fluctuation in aggregate effective demand  
(d) None of these
- Q.14) Post war reconstruction  
(a) will push the economy to slow down because of excess external debts.  
(b) will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.  
(c) can cause boom or recession depending upon the policies for reconstruction adopted by govt.  
(d) None of these
- Q.15) According to British economist J. M. Keynes \_\_\_\_\_ was the main cause of massive decline in income and employment during Great Depression of 1930.  
(a) Lower aggregate expenditure in the economy.  
(b) Banking crises and low money supply.  
(c) Over debtness.  
(d) Lower profits & pessimism
- Q.16) Which is more prone to the adverse effects of the business cycle \_\_\_\_\_  
(a) Services (b) Industries

- (c) Agriculture (d) None of these

- Q.17) The term business cycle refers to  
(a) the ups and downs in production of commodities  
(b) the fluctuating levels of economic activity over a period of time  
(c) decline in economic activities over prolonged period of time  
(d) increasing unemployment rate and diminishing rate of savings
- Q.18) A significant decline in general economic activity extending over a period of time is  
(a) business cycle  
(b) contraction phase  
(c) recession  
(d) recovery
- Q.19) The cobweb theory was propounded by \_\_\_\_\_  
(a) Hawtrey  
(b) Adam Smith  
(c) J M Keynes  
(d) Nicholas Kaldor
- Q.20) If the growth rate of population is higher than the rate of economic growth, there will be \_\_\_\_ in the economy.  
(a) more savings  
(b) no effect on savings  
(c) lesser savings  
(d) none of these
- Q.21) Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called \_\_\_\_.  
(a) Signals  
(b) Indicators  
(c) Barometer  
(d) Clues
- Q.22) The trough of a business cycle occurs when \_\_\_\_ hits its lowest point.  
(a) inflation in the economy  
(b) the money supply  
(c) aggregate economic activity  
(d) the unemployment rate
- Q.23) The lowest point in the business cycle is referred to as the  
(a) Expansion.  
(b) Boom.  
(c) Peak.  
(d) Trough.
- Q.24) A leading indicator is  
(a) a variable that tends to move along with the level of economic activity  
(b) a variable that tends to move in advance of aggregate economic activity



- (c) a variable that tends to move consequent on the level of aggregate economic activity
- (d) None of the above

- Q.25) Which of the following is the cause of business cycles?
- (a) Fluctuations in aggregate effective demand
  - (b) Fluctuations in investments
  - (c) Fluctuations in government spending
  - (d) All of the above
- Q.26) Which of the following statements is correct?
- (a) The business cycle largely affects the agricultural sector
  - (b) The business cycle largely affects small employees
  - (c) The business cycle generally affects all sectors of economy but business sector in particular.
  - (d) The business cycle affects low wages workers
- Q.27) Business cycle generally originates in free market economies, what is a free market economy?
- (a) The economy where government is in possession of major assets
  - (b) The economy where private firms control major assets
  - (c) The economy where decisions of productions are taken by public sector undertakings
  - (d) The economy where price is controlled by government.
- Q.28) Industries that are extremely sensitive to the business cycle are the
- (a) Durable goods and service sectors.
  - (b) Non-durable goods and service sectors.
  - (c) Capital goods and non-durable goods sectors.
  - (d) Capital goods and durable goods sectors.
- Q.29) A decrease in government spending would cause
- (a) the aggregate demand curve to shift to the right.
  - (b) the aggregate demand curve to shift to the left.
  - (c) a movement down and to the right along the aggregate demand curve.
  - (d) a movement up and to the left along the aggregate demand curve.
- Q.30) Which of the following does not occur during an expansion?
- (a) Consumer purchases of all types of goods tend to increase.
  - (b) Employment increases as demand for labour rises.
  - (c) Business profits and business confidence tend to increase
  - (d) None of the above.
- Q.31) Economic indicators are –
- (a) A one stroke solution to check the phase of economy
  - (b) Indicators showing the movement of economy
  - (c) Some activities which predict the direction of economy
  - (d) Just an illusion
- Q.32) According to \_\_\_\_\_ trade cycles occur due to onset of innovations.
- (a) Hawtrey
  - (b) Adam Smith

(c) J M Keynes

(d) Schumpeter

- Q.33) Which of the following is not an example of coincident indicator?  
(a) Industrial production  
(b) inflation  
(c) Retail sales  
(d) New orders for plant and equipment
- Q.34) The different phases of a business cycle  
(a) do not have the same length and severity  
(b) expansion phase always last more than ten years  
(c) last many years and are difficult to get over in short periods  
(d) none of the above
- Q.35) During recession, the unemployment rate \_\_\_\_\_ and output \_\_\_\_\_.  
(a) Rises; falls  
(b) Rises; rises  
(c) Falls; rises  
(d) Falls; falls
- Q.36) Which of the following best describes a typical business cycle?  
(a) Economic expansions are followed by economic contractions.  
(b) Inflation is followed by rising income and unemployment.  
(c) Economic expansions are followed by economic growth and development.  
(d) Stagflation is followed by inflationary economic growth
- Q.37) The four phases of the business cycle are  
(a) expansion, peak, contraction and trough  
(b) contraction, expansion, trough and boom  
(c) expansion contraction, peak, and trough  
(d) peak, depression, bust, and boom
- Q.38) When aggregate economic activity is declining, the economy is said to be in  
(a) Contraction.  
(b) an expansion.  
(c) a trough.  
(d) a turning point.
- Q.39) The most probable outcome of an increase in the money supply is  
(a) interest rates to rise, investment spending to rise, and aggregate demand to rise  
(b) interest rates to rise, investment spending to fall, and aggregate demand to fall  
(c) interest rates to fall, investment spending to rise, and aggregate demand to rise  
(d) interest rates to fall, investment spending to fall, and aggregate demand to fall
- Q.40) Which of the following is not a characteristic of business cycles?  
(a) Business cycles have serious consequences on the well-being of the society.  
(b) Business cycles occur periodically, although they do not exhibit the same regularity.  
(c) Business cycles have uniform characteristics and causes.  
(d) Business cycles are contagious and unpredictable.

- Q.41) Economic recession shares all of these characteristics except.
- (a) Fall in the levels of investment, employment
  - (b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
  - (c) Investor confidence is adversely affected and new investments may not be forthcoming
  - (d) Increase in the price of inputs due to increased demand for inputs
- Q.42) According to \_\_\_\_\_, modern business activities are based on the anticipations of business community and are affected by waves of optimism or pessimism.
- (a) Hawtrey
  - (b) Pigou
  - (c) Marshall
  - (d) Smith
- Q.43) "Business cycles do not affect all sectors uniformly."
- (a) True
  - (b) False
  - (c) Can't say
  - (d) Partially True
- Q.44) Which of the following is considered as most volatile component of aggregate demand
- (a) Government Spending
  - (b) Money Supply
  - (c) Investment Spending
  - (d) Post war construction
- Q.45) Business cycle generally originates in \_\_\_\_\_ economies.
- (a) Command
  - (b) Capitalist
  - (c) Socialist
  - (d) Both (a) & (c)
- Q.46) X Country experienced expansion from 2018 to 2022.  
What conclusion you can draw about recession phase from above statement
- (a) X country must experience recession phase for same period i.e 4 years
  - (b) Can't say as length of each phase of business cycle varies
  - (c) X country will experience recession for 8 years
  - (d) No recession will be experienced by this country till next 4 years
- Q.47) "It is very difficult to predict the turning points of business cycles."
- (a) True
  - (b) False
  - (c) Can't say
  - (d) Partially True
- Q.48) The \_\_\_ phase is characterized by increase in national output

- (a) Peak
- (b) Trough
- (c) Recession
- (d) Expansion

Q.49) Beginning of optimism happens in

- (a) Peak
- (b) Depression
- (c) Recovery
- (d) Trough

Q.50) Overcoming the effects of economic downturns and recessions is one of the major challenges of sustaining a business in the short term.

- (a) True
- (b) False
- (c) Can't say
- (d) Partially True

## ANSWERS

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

**CHAPTER 6**  
**DETERMINATION OF NATIONAL INCOME**

Max Marks 50

**Questions**

- Q.1) National Income Accounting, pioneered by the Nobel prize-winning economists \_\_\_\_ and \_\_\_\_.
- a) William McGraw and Jack Dean
  - b) Simon Kuznets and Richard Stone
  - c) Adam Smith and Ferdinand Anderson
  - d) Karl Marx and Solomon Caprio
- Q.2) CSO is the department in which ministry
- a) Ministry of Statistics and Programme Implementation (MoSP&I)
  - b) Ministry of Foreign Affairs
  - c) Ministry of Data Collection
  - d) Ministry of Home Affairs
- Q.3) Find nominal GDP if real GDP = 450 and price index = 120
- a) 500
  - b) 640
  - c) 450
  - d) 540
- Q.4) Basis of distinction between market price and factor cost is \_\_\_\_
- a) Income Tax
  - b) Import Duty
  - c) Net Indirect Taxes
  - d) All of the above
- Q.5) "Market price includes both product tax as well as production tax while excluding only production subsidies."
- a) True
  - b) False
  - c) Partially True
  - d) Partially False
- Q.6) Relationship between Basic Price and Market Price:  
Basic Price + Product tax = Market Price + Product Subsidy
- a) True
  - b) False
  - c) Partially True
  - d) Partially False
- Q.7) The nominal and real GDP respectively of a country in a particular year are 3000 Crores and 4700 Crores respectively. Calculate GDP deflator
- a) 73.45
  - b) 63.83

c) 64

d) 74

- Q.8) Aggregate demand (AD) is what economists call \_\_\_\_\_.
- a) Total Planned Expenditure
  - b) Gross Expenditure
  - c) Net Expenditure
  - d) None of the above
- Q.9) Consumption function expresses the functional relationship between aggregate consumption expenditure and aggregate disposable income
- a) True
  - b) False
  - c) Partially True
  - d) Partially False
- Q.10) Deficient demand gives rise to a \_\_\_\_\_
- a) Contractionary Gap
  - b) Recessionary Gap
  - c) Deflationary Gap
  - d) All of the above
- Q.11) Which of the following is a limitation of using GDP as a measure of economic well-being?
- (a) It includes only monetary transactions.
  - (b) It does not account for income distribution.
  - (c) It considers both market and non-market activities.
  - (d) It is not affected by inflation.
- Q.12) What is the purpose of a voluntary export restraint (VER)?
- (a) To limit the quantity of exports.
  - (b) To encourage foreign producers to export more
  - (c) To reduce the cost of imports.
  - (d) To comply with international trade agreements.
- Q.13) Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
  - (b) Exports
  - (c) Imports & exports
  - (d) None of the above
- Q.14) What is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach?
- (a)  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$
  - (b)  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$
  - (c)  $GDP = \text{Consumption} + \text{Investment}$
  - (d)  $GDP = \text{Consumption} + \text{Net Exports}$
- Q.15) Which component of National Income represents the income earned by individuals and businesses before taxes and other deductions?
- (a) Personal Income
  - (b) Disposable Income

(c) Gross National Product (GNP)

(d) Gross Domestic Product (GDP)

- Q.16) The concept of the "multiplier effect" in Keynesian economics refers to:
- (a) The impact of interest rates on investment
  - (b) The magnification of an initial change in spending throughout the economy
  - (c) The impact of taxes on consumer spending
  - (d) The role of exports in economic growth
- Q.17) The concept of "animal spirits" in Keynesian theory refers to:
- (a) The unpredictable behavior of financial markets
  - (b) Psychological factors influencing economic decisions
  - (c) Government regulations affecting business confidence
  - (d) The impact of interest rates on investment
- Q.18) If a country's Gross Domestic Product (GDP) is greater than its Gross National Product (GNP), it implies that the country:
- (a) Is a net exporter.
  - (b) Is a net importer.
  - (c) Has a trade surplus
  - (d) Has a trade deficit
- Q.19) What is the "liquidity trap" in Keynesian theory?
- (a) A situation where interest rates are very high.
  - (b) A situation where interest rates are very low, and savings are hoarded.
  - (c) A situation of hyperinflation
  - (d) A situation of excessive government spending
- Q.20) A recession is a decline in:
- (a) The unemployment rate that lasts six months or longer
  - (b) Real GDP that lasts six months or longer
  - (c) Potential GDP that lasts six months or longer
  - (d) The inflation rate that lasts six months or longer
- Q.21) Which of the following is NOT an example of a transfer payment in the sense of the national income accounts?
- (a) Government family allowances
  - (b) Public unemployment insurance benefits
  - (c) Dividends paid by corporations to stockholders
  - (d) Disability pensions paid from the social insurance system
- Q.22) For a person to keep his real income steady at a certain level from one year to the next, his nominal income must:
- (a) Stay the same as the price index rises
  - (b) Rise as fast as the price index
  - (c) Fall if the price index rises
  - (d) Rise if the price index falls
- Q.23) Consumer Price Index is calculated:
- (a) Once in 45 days
  - (b) Once in 3 months



(c) Once in fortnight

(d) Once in a month

- Q.24) A nation's gross domestic product (GDP):
- (a) can be found by summing  $C + I + G + X_n$ .
  - (b) is the dollar value of the total output produced by its citizens, regardless of where they are living.
  - (c) can be found by summing  $C + S + G + X_n$ .
  - (d) is always some amount less than its NDP.
- Q.25) Gross investment refers to:
- (a) private investment minus public investment.
  - (b) net investment plus replacement investment.
  - (c) net investment after it has been "inflated" for changes in the price level.
  - (d) net investment plus net exports
- Q.26) The difference between real and nominal GDP is \_\_\_\_
- (a) Nominal GDP only accounts for citizens.
  - (b) Nominal GDP uses price-levels of some base year.
  - (c) Nominal GDP uses actual price-levels.
  - (d) Real GDP also includes services, whereas nominal GDP only takes goods into account.
- Q.27) In the Keynesian model, equilibrium aggregate output is determined by
- (a) Aggregate demand
  - (b) Consumption function
  - (c) The national demand for labor
  - (d) The price level
- Q.28) Keynes believed that an economy may attain equilibrium level of output
- (a) only at the full-employment level of output
  - (b) below the full-employment level of output
  - (c) only if prices were inflexible
  - (d) a) and c) above
- Q.29) Under equation  $C = a + by$ ,  $b = 0.8$ , what is the value of 2 sector expenditure multiplier?
- (a) 4
  - (b) 2
  - (c) 5
  - (d) 1
- Q.30) In a closed economy, aggregate demand is the sum of
- (a) consumer expenditure, demand for exports and government spending.
  - (b) consumer expenditure, planned investment spending and government spending.
  - (c) consumer expenditure, actual investment spending, government spending and net exports.
  - (d) consumer expenditure, planned investment spending, government spending, and net exports.
- Q.31) If the consumption function is  $C = 20 + 0.5Y_d$ , then an increase in disposable income by 100 will result in an increase in consumer expenditure by `-----`



- (b) national income will be less than domestic factor incomes.  
(c) net exports will be negative  
(d) domestic factor incomes will be greater than national income
- Q.40) Mixed income of the self -employed means  
(a) net profits received by self -employed people  
(b) outside wages received by self- employed people  
(c) combined factor payments which are not distinguishable,  
(d) wages due to non- economic activities
- Q.41) Gross National Product at market prices GNP MP is  
(a) GDP MP + Net Factor Income from Abroad  
(b) GDP MP - Net Factor Income from Abroad  
(c) GDP MP - Depreciation  
(d) GDP MP + Net Indirect Taxes
- Q.42) Which of the following does not enter into the calculation of national income?  
(a) Exchange of previously produced goods  
(b) Exchange of second hand goods  
(c) Exchange of stocks and bonds  
(d) All the above
- Q.43) The concept of 'resident unit' involved in the definition of GDP denotes  
(a) A business enterprise which belongs to a citizen of India with production units solely situated in India  
(b) The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status  
(c) A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India  
(d) Households and business enterprises composed of citizens of India alone living in India during the accounting year
- Q.44) Read the following statements  
I. 'Value added' refers to the difference between value of output and purchase of intermediate goods.  
II. 'Value added' represents the contribution of labour and capital to the production process.  
(a) Statements I and II are incorrect  
(b) Statements I and II are correct  
(c) Statement I is correct and II is incorrect  
(d) Statement II is correct and I is
- Q.45) Non-economic activities are  
(a) those activities whose value is excluded from national income calculation as it will involve double counting  
(b) those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value  
(c) those which do not involve production of goods and services as they are meant

- to provide hobbies and leisure time activities
- (d) those which result in production for self-consumption and therefore not included in national income calculation
- Q.46) Which of the following enters into the calculation of national income?
- (a) The value of the services that accompany the sale  
(b) Additions to inventory stocks of final goods and materials  
(c) Stocks and bonds sold during the current year  
(d) (a) and (b) above
- Q.47) Read the following statements and answer the following question.
- I. Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production,  
II. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.
- (a) Only I is true  
(b) Both I and II are true  
(c) Only II is true  
(d) Neither I nor II is true
- Q.48) The basis of distinction between market price and factor cost is
- (a) net factor income from abroad  
(b) net indirect taxes (i.e., Indirect taxes - Subsidies)  
(c) net indirect taxes (i.e., Indirect taxes + Subsidies)  
(d) depreciation (consumption of fixed capital)
- Q.49) The GDP per capita is
- (a) a measure of a country's economic output per person  
(b) actual current income receipts of persons  
(c) national income divided by population  
(d) (a) and (c) above
- Q.50) Which of the following is an example of transfer payment?
- (a) Old age pensions and family pensions  
(b) Scholarships given to deserving diligent students.  
(c) Compensation given for loss of property due to floods  
(d) All the above

## ANSWERS

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

**CHAPTER 7  
PUBLIC FINANCE**

Max Marks 100

**Questions**

- Q.1) If the real GDP grows at a faster rate than \_\_\_\_\_, then people can enjoy higher standard of living.
- a) GNP
  - b) Inflation
  - c) Population
  - d) Stock Market Rates
- Q.2) According to \_\_\_\_\_, the state is the instrument by which the needs and concerns of the citizens are fulfilled
- a) Smith
  - b) Musgrave
  - c) Marshall
  - d) Hawtrey
- Q.3) High rates of taxes ultimately create negative consequences for economic output
- a) True
  - b) False
  - c) Partially True
  - d) Partially False
- Q.4) Who is the first economist to develop the theory of public goods
- a) Joel Dean
  - b) Karl Marx
  - c) William Southee
  - d) Paul A Samuelson
- Q.5) "Having more unhealthy insurance buyers make insurance very expensive." This is an example of
- a) Adverse Selection
  - b) Positive Externality
  - c) Negative Externality
  - d) None of the Above
- Q.6) Merit goods are goods that have substantial positive externalities and hence they are socially desirable
- a) True
  - b) False, as they are socially undesirable
  - c) False, as they have negative externality
  - d) Both b & c
- Q.7) Process of Budget Preparation starts in \_\_\_\_ of previous year
- a) February
  - b) October - November

- c) August – September                      d) None of the above

- Q.8) Rajya Sabha has to return the Finance Bill within the period of \_\_\_ Days  
a) 30  
b) 7  
c) 15  
d) 14
- Q.9) Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?  
(a) consumption and government purchases went up since you bought a used car and government bonds  
(b) consumption and investment went up since you bought a used car and government bonds  
(c) investment and government purchases went up since you built a new house and bought government bonds  
(d) investment went up since you built a new house
- Q.10) The expenditure multiplier is used to calculate the change in:  
(A) spending caused by a change in income  
(b) equilibrium income caused by a change in autonomous spending  
(c) intended spending caused by a change in consumption  
(d) disposable income caused by a change in saving
- Q.11) Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?  
(a) National debt  
(b) Budget surplus  
(c) Fiscal deficit  
(d) Revenue deficit
- Q.12) 'Who gave 'The Theory of Public Finance (1959)?  
(a) Adam Smith  
(b) Richard Musgrave  
(c) A.C. Pigou  
(d) Alfred Marshall
- Q.13) Which of the following is not an example of a policy designed to encourage competition?  
(a) Deregulation  
(b) Trade liberalization  
(c) Reducing income tax  
(d) Anti-monopoly regulations
- Q.14) Which of the following is an example of market failure?  
(a) Externalities  
(b) Low prices  
(c) Excess supply  
(d) Excludable and rival goods

- Q.15) Contractionary fiscal policy can involve:
- (a) Increasing consumption and investment and taxes.
  - (b) Decreasing government spending and increasing taxes.
  - (c) Increasing government spending and increasing taxes.
  - (d) None of the above.
- Q.16) Countries with higher saving rates may have higher equilibrium growth rates since:
- (a) people who save more also are more industrious
  - (b) higher income allows for more savings
  - (c) a higher saving rate allows for more investment in human capital which ultimately enhances economic growth
  - (d) having more capital equipment is more important than having better capital equipment
- Q.17) Which of the following is a common solution to the problem of common resources being overused?
- (a) Government regulation
  - (b) Privatization
  - (c) Subsidies
  - (d) Free-market competition
- Q.18) Which of the following are capital receipts of the government?
- (a) Recovery of loans
  - (b) Disinvestment
  - (c) Borrowing
  - (d) All of the above
- Q.19) What is the primary goal of countercyclical fiscal policy in budgeting?
- (a) Maximizing government revenue.
  - (b) Stabilizing the economy during economic downturns.
  - (c) Minimizing government intervention.
  - (d) None of these
- Q.20) The government makes the provision of which goods those cannot be provided through the market:
- (a) private and public goods
  - (b) public and merit goods
  - (c) public and necessary goods
  - (d) Giffen and merit goods
- Q.21) 'Market failure' is a situation which occurs when
- (a) private goods are not sufficiently provided by the market
  - (b) public goods are not sufficiently provided by public sector
  - (c) The market fail to form or they allocate resources efficiently
  - (d) (b) and (c) above
- Q.22) A Pigouvian subsidy
- (a) cannot be present when externalities are present



- (b) is a good solution for negative externality as prices will increase
- (c) is not measurable in terms of money and therefore not practical
- (d) may help production to be socially optimal when positive externalities are present

Q.23) Read the following statements

- I. Social costs are the total costs incurred by the society when a good is consumed or produced.
- II. The external costs are not included in firms' income statements or consumers' decisions
- III. Each firm's cost which is considered for determining output would be only private cost or direct cost of production which does not include external costs
- IV. Production and consumption decisions are efficient only when private costs are considered Of the above

- (a) Statements I and III are correct
- (b) Statements I,II and III are correct
- (c) Statement I only is correct
- (d) None of the above

Q.24) A government subsidy

- (a) is a market-based policy
- (b) involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities
- (c) is generally provided for merit goods
- (d) all the above

Q.25) Which one of the following would you suggest for reducing negative externality?

- (a) Production subsidies
- (b) Excise duty
- (c) Pigouvian taxes
- (d) All of the above

Q.26) Adequate amount of a pure public good will not be provided by the private market because of

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

Q.27) Which of the following is the right argument for provision of public good by government?

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

Q.28) Markets do not exist

- (a) for goods which have positive externalities
- (b) for pure public goods
- (c) for goods which have negative externalities

(d) none of the above

- Q.29) Which of the following is an example of market failure?  
(a) Prices of goods tend to rise because of shortages  
(b) Merit goods are not sufficiently produced and supplied  
(c) Prices fall leading to fall in profits and closure of firms  
(d) None of the above
- Q.30) If an individual tends to drive his car in a dangerously high speed because he has a comprehensive insurance cover, it is a case of  
(a) free riding  
(b) moral hazard  
(c) poor upbringing  
(d) Inefficiency
- Q.31) A chemical factory has full information regarding the risks of a product, but continues to sell it. This is possible because of  
(a) asymmetric information                      (b) moral hazard  
(c) free riding                                      (d) (a) and (c) above
- Q.32) The free rider problem arises because of  
(a) ability of participants to produce goods at zero marginal cost  
(b) marginal benefit cannot be calculated due to externalities present  
(c) the good or service is non excludable  
(d) general poverty and unemployment of people
- Q.33) Government failure occurs when  
(a) Government fails to implement its election promises on policies  
(b) A government is unable to get reelected  
(c) Government intervention is ineffective and produces fresh and more serious problems  
(d) None of the above
- Q.34) The argument for education subsidy is based on  
(a) Education is costly  
(b) the ground that education is merit good  
(c) education creates positive externalities  
(d) b) and c) above
- Q.35) Rules regarding product labelling  
(a) Seeks to correct market failure due to externalities  
(b) Is a method of solving the problem of public good  
(c) May help solve market failure due to information failure  
(d) Reduce the problem of monopolies in the product market
- Q.36) The Competition Act, 2002 aims to -  
(a) protect monopoly positions of firms that have developed unique innovations  
(b) to promote and sustain competition in markets  
(c) to determine pricing under natural monopoly.  
(d) None of the above

- Q.37) Which of the following statements is false?
- (a) Tradable permits provide incentive to innovate and reduce negative externalities
  - (b) A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower
  - (c) Substantial negative externalities are involved in the consumption of merit goods.
  - (d) Merit goods are likely to be under-produced and under consumed through the market mechanism
- Q.38) Smoking in public is a case of
- (a) Negative consumption externality
  - (b) Negative production externality
  - (c) Internalising externality
  - (d) None of the above
- Q.39) Read the following statements
- I. The market-based approaches to control externalities operate through price mechanism
  - II. When externalities are present, the welfare loss would be eliminated
  - III. The key to internalizing an externality is to ensure that those who create the externalities include them while making decisions
- Of the above statements
- (a) II and III are correct
  - (b) I only is correct
  - (c) II only is correct
  - (d) I and III are correct
- Q.40) The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual
- (a) Is a case of negative externality
  - (b) Is a case of market efficiency
  - (c) Is a case of free riding
  - (d) Is inappropriate and warrant action
- Q.41) While if governments compete with the private sector to borrow money for securing resources for expansionary fiscal policy
- (a) it is likely that interest rates will go up and firms may not be willing to invest
  - (b) it is likely that interest rates will go up and the individuals too may be reluctant to borrow and spend
  - (c) it is likely that interest rates will go up and the desired increase in aggregate demand may not be realized
  - (d) All the above are possible.
- Q.42) Read the following statements
- I. Fiscal policy is said to be contractionary when revenue is higher than spending i.e., the government budget is in surplus
  - II. Other things constant, a fiscal expansion will raise interest rates and “crowd out” some private investment

- III. During inflation new taxes can be levied and the rates of existing taxes are raised to reduce disposable incomes
  - IV. Classical economists advocated contractionary fiscal policy to solve the problem of inflation of the above statements
- (a) I and II are correct
  - (b) I, II and III are correct
  - (c) Only III is correct
  - (d) All are correct

Q.43) Which statement (s) is (are) correct about crowding out?

- I. A decline in private spending may be partially or completely offset by the expansion of demand resulting from an increase in government expenditure.
  - II. Crowding out effect is the negative effect fiscal policy may generate when money from the private sector is 'crowded out' to the public sector.
  - III. When spending by government in an economy increases government spending would be crowded out.
  - IV. Private investments, especially the ones which are interest –sensitive, will be reduced if interest rates rise due to increased spending by government
- (a) I and III only
  - (b) I, II, and III
  - (c) I, II, and IV
  - (d) III only

Q.44) Fiscal policy refers to the

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

Q.45) Which of the following are likely to occur when an economy is in an expansionary phase of a business cycle?

- (A) Rising unemployment rate
  - (B) Falling unemployment rate
  - (C) Rising inflation rate
  - (D) Deflation
  - (E) Falling or stagnant wage for workers
  - (F) Increasing tax revenue
  - (G) Falling tax revenue
- (a) A, B and F are most likely to occur**
  - (b) B, C and F are most likely to occur**
  - (c) D, E and F are most likely to occur**
  - (d) A, E and G are most likely to occur**

- Q.46) According to Keynesian economics, when we have inflation an effective fiscal policy should not include
- (a) increase corporate taxes.
  - (b) decrease aggregate demand.
  - (c) Increase government purchases.
  - (d) None of the above is correct
- Q.47) If real GDP is continuously declining and the rate of unemployment in the economy is increasing, the appropriate policy should be to
- (a) Increase taxes and decrease government spending
  - (b) Decrease both taxes and government spending
  - (c) Decrease taxes and increase government spending
  - (d) Either (a) or (c)
- Q.48) Which of the following policies is likely to shift an economy's aggregate demand curve to the right?
- (a) Increase in government spending
  - (b) Decrease in taxes
  - (c) A tax cut along with increase in public expenditure
  - (d) All the above
- Q.49) When government spending is deliberately reduced to bring in stability
- (a) the government is resorting to contractionary fiscal policy
  - (b) the government is resorting to expansionary fiscal policy
  - (c) trying to limit aggregate demand to sustainable levels
  - (d) (a) and c) above
- Q.50) Which of the following fiscal remedy would you advice when an economy is facing recession
- (a) the government may cut interest rates to encourage consumption and investment
  - (b) the government may cut taxes to increase aggregate demand
  - (c) the government may follow a policy of balanced the budget.
  - (d) None of the above will work
- Q.51) An increase in personal income taxes
- (a) reduces disposable incomes leading to fall in consumption spending and aggregate demand
  - (b) is desirable during inflation or when there is excessive levels of aggregate demand
  - (c) is to compensate the deficiency in effective demand by boosting aggregate spending
  - (d) both a) and b) are correct
- Q.52) Identify the incorrect statement
- (a) A progressive direct tax system ensures economic growth with stability because it distributes the burden of taxes unequally
  - (b) A carefully planned policy of public expenditure helps in redistributing income from the rich to the poorer sections of the society.

- (c) There are possible conflicts between different objectives of fiscal policy such that a policy designed to achieve one goal may adversely affect another
  - (d) An increase in the size of government spending during recessions may possibly 'crowd-out' private spending in an economy.
- Q.53) While resorting to expansionary fiscal policy
- (a) the government may possibly have a budget surplus as increased expenditure will bring more output and more tax revenue
  - (b) the government may run into budget deficits because tax cuts reduce government income and the government expenditures exceed tax revenues in a given year
  - (c) it is important to have a balanced budget to avoid inflation and bring in stability
  - (d) None of the above will happen
- Q.54) Which of the following may ensure a decrease in aggregate demand during inflation?
- (a) decrease in all types of government spending and/ or an increase in taxes
  - (b) increase in government spending and/ or a decrease in taxes
  - (c) decrease in government spending and/ or a decrease in taxes
  - (d) All the above
- Q.55) Keynesian economists believe that
- (a) fiscal policy can have very powerful effects in altering aggregate demand, employment and output in an economy
  - (b) when the economy is operating at less than full employment levels and when there is a need to offer stimulus to demand fiscal policy is of great use
  - (c) Wages are flexible and therefore business fluctuations would be automatically adjusted
  - (d) (a) and (b) above
- Q.56) During recession the fiscal policy of the government should be directed towards
- (a) Increasing the taxes and reducing the aggregate demand
  - (b) Decreasing taxes to ensure higher disposable income
  - (c) Increasing government expenditure and increasing taxes
  - (d) None of the above
- Q.57) A recession is characterized by
- (a) Declining prices and rising employment
  - (b) Declining unemployment and rising prices
  - (c) Declining real income and rising unemployment.
  - (d) Rising real income and rising prices
- Q.58) Which one of the following is an example of fiscal policy?
- (a) A tax cut aimed at increasing the disposable income and spending
  - (b) A reduction in government expenditure to contain inflation
  - (c) An increase in taxes and decrease in government expenditure to control inflation
  - (d) All the above
- Q.59) Which of the following would illustrate a recognition lag?
- (a) The time required to identify the appropriate policy
  - (b) The time required to identify to pass a legislation

- (c) The time required to identify the need for a policy change  
(d) The time required to establish the outcomes of fiscal policy
- Q.60) An expansionary fiscal policy, taking everything else constant, would in the short -run have the effect of
- (a) a relative large increase in GDP and a smaller increase in price  
(b) a relative large increase in price, a relatively smaller increase in GDP  
(c) both GDP and price will be increasing in the same proportion  
(d) both GDP and price will be increasing in a smaller proportion
- Q.61) Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as
- (a) RBI credit to states  
(b) Commercial credit of RBI  
(c) Ways and Means Advances (WMA)  
(d) Short term facility
- Q.62) A budget is said to be unbalanced when
- (a) when government's revenue exceeds government's expenditure  
(b) when government's expenditure exceeds government's revenue  
(c) either budget surplus of budget deficit occurs  
(d) All the above
- Q.63) The non-debt capital receipts of this country is
- (a) 45.1  
(b) 16.7  
(c) 15.8  
(d) None of the above
- Q.64) Public debt management aims at
- (a) An efficient budgetary policy to avail of domestic debt facilities  
(b) Raising loans from international agencies at lower rates of interest  
(c) Raising the required amount of funding at the desired risk and cost levels  
(d) Management of public expenditure to reduce public debt
- Q.65) In NITI Aayog, NITI stands for
- (a) National Initiative for Transforming India  
(b) National Institution for Transforming India  
(c) National Institute for Technology and Innovation  
(d) None of the above
- Q.66) The Appropriation Bill is intended to
- (a) reduce unnecessary expenditure on the part of the government  
(b) give authority to government to incur expenditure from and out of the Consolidated Fund of India  
(c) give authority to government to incur expenditure from the revenue receipts only  
(d) be passed before the budget is taken for discussion

- Q.67) The following table relates to the revenue and expenditure figures of a hypothetical economy. The capital receipts are
- (a) 23.5
  - (b) 19.7
  - (c) 11.3
  - (d) None of the above
- Q.68) Revenue deficit is
- (a) 23.6
  - (b) 13.0
  - (c) 7.0
  - (d) 2.6
- Q.69) Which of the following is a statement submitted along with the budget as requirement of FRBM Act
- (a) Annual Financial Statement
  - (b) Macro -Economic Framework Statement
  - (c) Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement
  - (d) (b) and (c) above
- Q.70) Government borrowing is treated as capital receipt because
- (a) It is mainly used for creating assets by government
  - (b) It creates a liability for the government
  - (c) Both a) and b) above are correct
  - (d) None of the above is correct
- Q.71) Non-debt capital receipts
- (a) do not add to the assets of the government and therefore not treated as capital receipts
  - (b) are those that do not create any future repayment burden for the government
  - (c) are those that create future liabilities for the government
  - (d) facilitate capital investments at low cost
- Q.72) Grants given by the central government to state governments is
- (a) A revenue expenditure as it is meant to meet the current expenditure of the states
  - (b) A revenue expenditure as it does neither creates any asset, nor reduces any liability of the government
  - (c) A capital expenditure because it increase the capital base of the states
  - (d) It is a grant and so does not come under revenue expenditure or capital expenditure
- Q.73) Which of the following is a capital receipt?
- (a) Licence fee received
  - (b) Sale proceeds from disinvestment
  - (c) Assistance from Japan for covid vaccine
  - (d) Dividend from a public sector enterprise
- Q.74) Budget of the government generally impacts
- (a) the resource allocation in the economy
  - (b) redistribution of income and enhance equity
  - (c) stability in the economy by measures to control price fluctuations
  - (d) all the above



- Q.75) 'Retail Direct' scheme is
- (a) Initiated by the Reserve Bank of India
  - (b) facilitate investment in government securities by individual investors.
  - (c) Direct sale of goods and services by government departments
  - (d) Both (a) and (b) are correct
- Q.76) Fiscal deficit refers to
- (a) the excess of government's revenue expenditure over revenue receipts
  - (b) The excess of total expenditure over total receipts excluding borrowings
  - (c) Primary deficit - interest payments
  - (d) None of these
- Q.77) Corporate tax
- (a) is collected by the union government and can be a capital receipt or revenue receipt
  - (b) may be collected by the respective states and fall under revenue receipts
  - (c) may be collected either by the centre or states and fall under revenue receipts
  - (d) is collected by the union government and is a revenue receipt
- Q.78) Outcome budgeting
- (a) shares information about the money allocated for various purposes in a budget
  - (b) establishes a direct link between budgetary allocations and performance targets measured through output and outcome indicators
  - (c) establishes a direct link between budgetary performance targets and public account disbursements
  - (d) shares information about public policies and programmes under the budget
- Q.79) The railway budget is
- (a) Part of the general budget, but is presented by the railway minister
  - (b) Part of the general budget from the budget for financial year 2017-18.
  - (c) Part of the general budget from the budget for financial year 2021-22
  - (d) Part of the general budget but presented on the next day of the general budget
- Q.80) The difference between the budget deficit of a government and its debt service payments is
- (a) Fiscal deficit
  - (b) Budget deficit
  - (c) Primary deficit
  - (d) None of the above
- Q.81) Providing social sector services such as health and education is
- (a) the responsibility of the central government
  - (b) the responsibility of the respective state governments
  - (c) the responsibility of local administrative bodies
  - (d) none of the above
- Q.82) As per the supreme court verdict in May 2022
- (a) The union has greater powers than the states for enacting GST laws
  - (b) The union and state legislatures have "equal, simultaneous powers" to make laws on Goods and Services Tax

- (c) The union legislature's enactments will prevail in case of a conflict between those of union and states
- (d) The state legislatures can make rules only with the permission of central government
- Q.83) The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is
- (a) 38 percent
- (b) 41 percent
- (c) 42 percent
- (d) The commission has not submitted its report
- Q.84) Which of the following is not a criterion for determining distribution of central taxes among states for 2021-26 period
- (a) Demographic performance
- (b) Forest and ecology
- (c) Infrastructure performance
- (d) Tax and fiscal efforts
- Q.85) Which one of the following taxes is levied by the state government only?
- (a) Corporation tax
- (b) Wealth tax
- (c) Income tax
- (d) None of the above
- Q.86) Fiscal Federalism refers to \_\_\_\_\_.
- (a) Organizing and implementing development plans
- (b) Sharing of political power between centers and states
- (c) The management of fiscal policy by a nation
- (d) Division of economic functions and resources among different layers of the government
- Q.87) Redistribution policies are likely to have efficiency costs because
- (a) They will reduce the efficiency of governments
- (b) They may create disincentives to work and save
- (c) Governments have to forego taxes
- (d) They are likely to make the poor people dependent on the rich
- Q.88) Macroeconomic stabilization may be achieved through
- (a) Free market economy
- (b) Fiscal policy
- (c) Monetary policy
- (d) (b) and (c) above
- Q.89) The justification for government intervention is best described by
- (a) The need to prevent recession and inflation in the economy
- (b) The need to modify the outcomes of private market actions
- (c) The need to bring in justice in distribution of income and wealth
- (d) All the above

- Q.90) When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?
- (a) It is trying to establish stability in an economy
  - (b) It is trying to redistribute income and wealth
  - (c) It is trying to allocate resources to their most efficient use
  - (d) It is creating a source of market failure
- Q.91) Which of the following is true in respect of the role of Finance Commissions in India?
- I. The distribution between the union and the states of the net proceeds of taxes
  - II. Allocation between the states of the respective shares of such proceeds.
  - III. Make Recommendations on integrated GST on inter-state movement of goods and services
  - IV. To recommend expenditure decentralization among different states
- (a) I and II are correct
  - (b) II and III are correct
  - (c) I, II and III are correct
  - (d) All the above are correct
- Q.92) In a federal set up, the stabilization function can be effectively performed by
- (a) Respective state governments
  - (b) Ministry of taxes
  - (c) The government at the centre
  - (d) None of the above
- Q.93) Which of the following is concerned with division of economic responsibilities between the central and state Government of India?
- (a) NITI Aayog
  - (b) central bank
  - (c) Finance Commission
  - (d) Parliament
- Q.94) Which of the following policies of the government fulfils the redistribution function
- (a) Parking the army on the northern borders of the country
  - (b) Supply of food grains at subsidized prices to the poor people
  - (c) Controlling the supply of money through monetary policy
  - (d) All of the above
- Q.95) Choose the correct statement
- (a) Fiscal policy involves the use of changes in taxation and government spending while monetary policy involves the use of price and profit controls.
  - (b) Fiscal policy involves the use of price and profit controls; while monetary policy involves the use of taxation and government spending.
  - (c) Fiscal policy involves the use of changes in taxation and government spending; while monetary policy involves the use of changes in the supply of money and interest rates.
  - (d) Fiscal policy involves the use of changes in the supply of money and interest rates;

while monetary policy involves the use of changes in taxation and government spending.

Q.96) Read the following statements:

1. The market-generated allocation of resources is usually imperfect and leads to inefficient allocation of resources in the economy
2. Market failures can at all times be corrected through government intervention
3. Public goods will not be produced in sufficient quantities in a market economy

Of the three statements above:

- (a) 1,2 and 3 are correct
- (b) 1 and 3 are correct
- (c) 2 and 3 are correct
- (d) 3 alone is correct

Q.97) Government of Emeline Land decides to provide most modern road infrastructure throughout the nation. This can be classified as

- (a) Distribution function
- (b) Allocation function
- (c) Stabilization function
- (d) None of the above

Q.98) Which function does the government perform when it provides transfer payments to offer support to the underprivileged

- (a) Allocation
- (b) Efficiency
- (c) Distribution
- (d) None of the above

Q.99) Which of the following is true in respect of centre and state government finances?

- (a) The centre can tax agricultural income and mineral rights
- (b) Finance commission recommends distribution of taxes between the centre and states
- (c) GST subsumes majority of direct taxes and a few indirect taxes
- (d) IGST is collected by the state governments

Q.100) GST compensation is given to

- (a) to the industries which have made losses due to the introduction of GST
- (b) to compensate for the lower rates of GST on essential items
- (c) to the states to compensate for the loss of revenue due to the introduction of GST
- (d) to compensate for the loss of input tax credit in manufacturing

## ANSWERS

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

**CHAPTER 8**  
**MONEY MARKET**

Max Marks 50

**Questions**

- Q.1) Which of the following is included in M2, a broader measure of money supply compared to M1?
- (a) Currency in circulation
  - (b) Savings deposits
  - (c) Demand deposits
  - (d) Travellers' checks
- Q.2) A central bank that wants to stabilize the economy in the short run should try to:
- (a) establish a clear inflation target and stick to it no matter what
  - (b) affect aggregate supply through open market operations
  - (c) affect aggregate demand through open market operations
  - (d) concentrate only on long-run goals
- Q.3) By way of an optimal choice, a consumer tends to:
- (a) save money
  - (b) purchase large quantity
  - (c) maximize satisfaction
  - (d) maximize satisfaction subject to constraints like tastes and preferences.
- Q.4) If the central bank conducts an open market purchase of government securities, what is the likely impact on the money supply?
- (a) Increase
  - (b) Decrease
  - (c) No change
  - (d) Variable, depending on other factors.
- Q.5) Which of the following policy measures is typically used by central banks to manage the business cycle?
- (a) Fiscal policy.
  - (b) Monetary policy.
  - (c) Trade policy.
  - (d) Industrial policy.
- Q.6) If the reserve requirement is 20%, what is the potential maximum expansion of the money supply when a new deposit of \$1,000 is made?
- (a) \$5,000
  - (b) \$2,000
  - (c) \$1,000
  - (d) \$500

- Q.7) What is a Global Depository Receipt?
- (a) It is a receipt issued by multinational banks on deposit of money.
  - (b) It is a receipt issued by stock exchange to bank clearing mechanism.
  - (c) It is a receipt issued by an overseas bank in lieu of shares of a domestic company.
  - (d) It is a receipt issued by stock exchange on investment by foreign portfolio investor.
- Q.8) Any act of interference by a Central Bank like the RBI in influencing the exchange rate is referred to as which of the following in India?
- (a) Dirty Floats
  - (b) Managed Floats
  - (c) Fixed Floats
  - (d) Market Stabilization Floats
- Q.9) Which type of investment is more susceptible to capital flight during times of economic instability?
- (a) FDI
  - (b) FPI
  - (c) Both FDI and FPI equally
  - (d) Neither FDI nor FPI
- Q.10) What will be the value of Credit Multiplier when the Required Reserve ratio is 50%?
- (a) 4
  - (b) 2
  - (c) 3
  - (d) 1
- Q.11) Money Supply is directly proportional to:
- (a) Cash reserve ratio ( $r$ )
  - (b) Monetary base ( $H$ )
  - (c) currency deposit ratio ( $k$ )
  - (d) Money Multiplier ( $m$ )
- Q.12) Consumer Price Index is calculated:
- (a) Once in 45 days
  - (b) Once in 3 months
  - (c) Once in fortnight
  - (d) Once in a month
- Q.13) Dirty Floating is related to:
- (a) Flexible system of exchange rate
  - (b) fixed system of exchange rate
  - (c) Either of these
  - (d) None of these
- Q.14) The Monetary Policy Framework Agreement is on
- (a) the maximum repo rate that RBI can charge from government
  - (b) the maximum tolerable inflation rate that RBI should target to achieve price stability.

- (c) the maximum repo rate that RBI can charge from the commercial banks
- (d) the maximum reverse repo rate that RBI can charge from the commercial banks

Q.15) Which statement (s) is (are) true about Monetary Policy Committee?

- I. The Reserve Bank of India (RBI) Act, 1934 was amended on June 27, 2016, for giving a statutory backing to the Monetary Policy Framework Agreement and for setting up a Monetary Policy Committee
- II. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of experts required to achieve the inflation target.
- III. The Monetary Policy Committee shall determine the policy rate through consensus from the governor of RBI
- IV. The Monetary Policy Committee shall determine the policy rate through debate and majority vote by a panel of bankers chosen for eth purpose

- (a) I only
- (b) I and II only
- (c) III and IV
- (d) III only

Q.16) A contractionary monetary policy-induced increase in interest rates

- (a) increases the cost of capital and the real cost of borrowing for firms
- (b) increases the cost of capital and the real cost of borrowing for firms and households
- (c) decreases the cost of capital and the real cost of borrowing for firms
- (d) has no interest rate effect on firms and households

Q.17) In India, the term 'Policy rate' refers to

- (a) The bank rate prescribed by the RBI in its half yearly monetary policy statement
- (b) The CRR and SLR prescribed by RBI in its monetary policy statement
- (c) the fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)
- (d) the fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)

Q.18) During deflation

- (a) the RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
- (b) the RBI increases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
- (c) the RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy
- (d) the RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy

Q.19) RBI provides financial accommodation to the commercial banks through repos/reverse repos under

- (a) Market Stabilisation Scheme (MSS)
- (b) The Marginal Standing Facility (MSF)



- (c) Liquidity Adjustment Facility (LAF).  
(d) Statutory Liquidity Ratio (SLR)
- Q.20) An open market operation is an instrument of monetary policy which involves buying or selling of \_\_\_\_\_ from or to the public and banks  
(a) bonds and bills of exchange  
(b) debentures and shares  
(c) government securities  
(d) none of these
- Q.21) Which of the following is the function of monetary policy?  
(a) regulate the exchange rate and keep it stable  
(b) regulate the movement of credit to the corporate sector  
(c) regulate the level of production and prices  
(d) regulate the availability, cost and use of money and credit
- Q.22) Which of the following statements is correct?  
(a) The governor of the RBI in consultation with the Ministry of Finance decides the policy rate and implements the same  
(b) While CRR has to be maintained by banks as cash with the RBI, the SLR requires holding of approved assets by the bank itself  
(c) When repo rates increase, it means that banks can now borrow money through open market operations (OMO)  
(d) None of the above
- Q.23) \_\_\_\_\_ is a money market instrument, which enables collateralized short term borrowing and lending through sale/purchase operations in debt instruments.  
(a) OMO  
(b) CRR  
(c) SLR  
(d) Repo
- Q.24) The main objective of monetary policy in India is \_\_\_\_\_:  
(a) reduce food shortages to achieve stability  
(b) economic growth with price stability  
(c) overall monetary stability in the banking system  
(d) reduction of poverty and unemployment
- Q.25) The monetary transmission mechanism refers to  
(a) how money gets circulated in different sectors of the economy post monetary policy  
(b) the ratio of nominal interest and real interest rates consequent on a monetary policy  
(c) the process or channels through which the evolution of monetary aggregates affects the level of product and prices  
(d) none of the above

- Q.26) Demand for money is
- (a) Derived demand
  - (b) Direct demand
  - (c) Real income demand
  - (d) Inverse demand
- Q.27) Choose the incorrect statement
- (a) Anything that would act as a medium of exchange is money
  - (b) Money has generalized purchasing power and is generally acceptable in settlement of all transactions
  - (c) Money is a totally liquid asset and provides us with means to access goods and services
  - (d) Currency which represents money does not necessarily have intrinsic value.
- Q.28) Higher the \_\_\_\_\_, higher would be \_\_\_\_\_ of holding cash and lower will be the \_\_\_\_\_
- (a) demand for money, opportunity cost, interest rate
  - (b) price level, opportunity cost, interest rate
  - (c) real income, opportunity cost, demand for money
  - (d) interest rate, opportunity cost, demand for money
- Q.29) Money performs all of the three functions mentioned below, namely
- (a) medium of exchange, price control, store of value
  - (b) unit of account, store of value, provide yields
  - (c) medium of exchange, unit of account, store of value
  - (d) medium of exchange, unit of account, income distribution
- Q.30) The quantity theory of money holds that
- (a) changes in the general level of commodity prices are caused by changes in the quantity of money
  - (b) there is strong relationship between money and price level and the quantity of money is the main determinant of the price
  - (c) changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation
  - (d) All the above
- Q.31) The nominal demand for money rises if
- (a) the opportunity costs of money holdings – i.e. bonds and stock returns,  $r_B$  and  $r_E$ , respectively- decline and vice versa
  - (b) the opportunity costs of money holdings – i.e. bonds and stock returns,  $r_B$  and  $r_E$ , respectively- rises and vice versa
  - (c) the opportunity costs of money holdings – i.e. bonds and stock returns,  $r_B$  and  $r_E$ , respectively remain constant
  - (d) b) and c) above

- Q.32) According to Keynes, if the current interest rate is high
- (a) people will demand more money because the capital gain on bonds would be less than return on money
  - (b) people will expect the interest rate to rise and bond price to fall in the future.
  - (c) people will expect the interest rate to fall and bond price to rise in the future.
  - (d) Either a) or b) will happen
- Q.33) \_\_\_\_\_ considered demand for money is as an application of a more general theory of demand for capital assets
- (a) Baumol
  - (b) James Tobin
  - (c) J M Keynes
  - (d) Milton Friedman
- Q.34) According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:
- (a) a positive function of income  $Y$  and the price level  $P$
  - (b) a positive function of transactions costs  $c$
  - (c) a negative function of the nominal interest rate  $i$
  - (d) All the above
- Q.35) Fisher's approach and the Cambridge approach to demand for money consider
- (a) money's role in acting as a store of value and therefore, demand for money is for storing value temporarily.
  - (b) money as a means of exchange and therefore demand for money is termed as for liquidity preference
  - (c) money as a means of transactions and therefore, demand for money is only transaction demand for money.
  - (d) None of the above
- Q.36) The inventory-theoretic approach to the transactions demand for money
- (a) explains the negative relationship between money demand and the interest rate.
  - (b) explains the positive relationship between money demand and the interest rate.
  - (c) explains the positive relationship between money demand and general price level
  - (d) explains the nature of expectations of people with respect to interest rates and bond prices
- Q.37) Speculative demand for money
- (a) is not determined by interest rates
  - (b) is positively related to interest rates
  - (c) is negatively related to interest rates
  - (d) is determined by general price level

- Q.38) The precautionary money balances people want to hold
- (a) as income elastic and not very sensitive to rate of interest
  - (b) as income inelastic and very sensitive to rate of interest
  - (c) are determined primarily by the level of transactions they expect to make in the future.
  - (d) are determined primarily by the current level of transactions
- Q.39) Real money is
- (a) nominal money adjusted to the price level
  - (b) real national income
  - (c) money demanded at given rate of interest
  - (d) nominal GNP divided by price level
- Q.40) The Cambridge approach to quantity theory is also known as
- (a) Approach
- Q.41) The ratio that relates the change in the money supply to a given change in the monetary base is called the
- (a) required reserve ratio.
  - (b) money multiplier.
  - (c) deposit ratio.
  - (d) discount rate.
- Q.42) If commercial banks reduce their holdings of excess reserves
- (a) the monetary base increases.
  - (b) the monetary base falls.
  - (c) the money supply increases.
  - (d) the money supply falls.
- Q.43) The money multiplier will be large
- (a) for higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
  - (b) for constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)
  - (c) for lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
  - (d) None of the above
- Q.44) For a given level of the monetary base, an increase in the required reserve ratio will denote
- (a) a decrease in the money supply.
  - (b) an increase in the money supply.
  - (c) an increase in demand deposits.
  - (d) Nothing precise can be said

- Q.45) The currency ratio represents
- (a) the behaviour of central bank in the issue of currency.
  - (b) the behaviour of central bank in respect cash reserve ratio.
  - (c) the behaviour of the public.
  - (d) the behaviour of commercial banks in the country.
- Q.46) The size of the money multiplier is determined by
- (a) the currency ratio (c) of the public,
  - (b) the required reserve ratio (r) at the central bank, and
  - (c) the excess reserve ratio (e) of commercial banks.
  - (d) all the above
- Q.47) If the behaviour of the public and the commercial banks is constant, then
- (a) the total supply of nominal money in the economy will vary directly with the supply of the nominal high-powered money issued by the central bank
  - (b) the total supply of nominal money in the economy will vary directly with the rate of interest and inversely with reserve money
  - (c) the total supply of nominal money in the economy will vary inversely with the supply of high powered money
  - (d) all the above are possible
- Q.48) Banks in the country are required to maintain deposits with the central bank
- (a) to provide the necessary reserves for the functioning of the central bank
  - (b) to meet the demand for money by the banking system
  - (c) to meet the central bank prescribed reserve requirements and to meet settlement obligations.
  - (d) to meet the money needs for the day to day working of the commercial banks
- Q.49) The primary source of money supply in all countries is
- (a) the Reserve Bank of India
  - (b) the Central bank of the country
  - (c) the Bank of England
  - (d) the Federal Reserve
- Q.50) Under the 'minimum reserve system' the central bank is
- (a) empowered to issue currency to any extent by keeping an equivalent reserve of gold and foreign securities.
  - (b) empowered to issue currency to any extent by keeping only a certain minimum reserve of gold and foreign securities.
  - (c) empowered to issue currency in proportion to the reserve money by keeping only a minimum reserve of gold and foreign securities.
  - (d) empowered to issue currency to any extent by keeping a reserve of gold and foreign securities to the extent of ` 350 crores

## ANSWERS

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

**CHAPTER 9**  
**INTERNATIONAL TRADE**

Max Marks 50

**Questions**

## International Trade

Max Marks 50

- Q.1) The quantity of dollars supplied will decrease if:
- (a) imports into the United States increase.
  - (b) the expected future exchange rate falls.
  - (c) the interest rate in the United States falls.
  - (d) fewer U.S. residents travel abroad.
- Q.2) Theory of Mercantilism propagates:
- (a) Encourage exports and imports
  - (b) Encourage exports and discourage imports
  - (c) Discourage exports and imports
  - (d) Discourage exports and encourage imports
- Q.3) Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
  - (b) Exports
  - (c) Imports & exports
  - (d) None of the above
- Q.4) Which of the following is more sensitive to short-term changes in economic conditions?
- (a) FDI
  - (b) FPI
  - (c) Both FDI and FPI
  - (d) Neither FDI nor FPI
- Q.5) Which international organization is responsible for facilitating trade negotiations and resolving trade disputes among member countries?
- (a) World Health Organization (WHO)
  - (b) International Monetary Fund (IMF)
  - (c) World Trade Organization (WTO)
  - (d) United Nations Educational, Scientific and Cultural Organization (UNESCO)
- Q.6) Which trade policy tool is designed to directly support domestic producers by reducing the cost of exporting goods?
- (a) Export subsidy
  - (b) Import quota
  - (c) Voluntary export restraint
  - (d) Export tariff

- Q.7) Ricardo explained the law of comparative advantage on the basis of
- opportunity costs
  - the law of diminishing returns
  - economies of scale
  - the labour theory of value
- Q.8) Assume India and Bangladesh have the unit labour requirements for producing tables and mats shown in the table below. It follows that:
- |       | India | Bangladesh |
|-------|-------|------------|
| Table | 3     | 8          |
| Mats  | 2     | 1          |
- Bangladesh has a comparative advantage in mats
  - India has a comparative advantage in tables
  - Bangladesh has an absolute advantage in mats
  - All the above are true
- Q.9) Given the number of labour hours to produce wheat and rice in two countries and that these countries specialise and engage in trade at a relative price of 1:1 what will be the gain of country X?
- |           | Wheat | Rice |
|-----------|-------|------|
| Country X | 10    | 20   |
| Country Y | 20    | 10   |
- 20 labour hours
  - 10 labour hours
  - 30 labour hours
  - Does not gain anything
- Q.10) Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports
- Capitalism
  - Socialism
  - Mercantilism
  - Laissez faire
- Q.11) Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage?
- Modern theory of international trade
  - The factor endowment theory
  - The Heckscher-Ohlin Theory
  - None of the above
- Q.12) Given the number of labour hours to produce cloth and grain in two countries, which country should produce grain?
- |       | Country A | Country B |
|-------|-----------|-----------|
| Cloth | 40        | 80        |
| Grain | 80        | 40        |



- (a) Country A
  - (b) Country B
  - (c) Neither A nor B
  - (d) Both A and B
- Q.13) Which of the following does not represent a difference between internal trade and international trade?
- (a) transactions in multiple currencies
  - (b) homogeneity of customers and currencies
  - (c) differences in legal systems
  - (d) none of the above
- Q.14) The theory of absolute advantage states that
- (a) national wealth and power are best served by increasing exports and decreasing imports
  - (b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
  - (c) that the value or price of a commodity depends exclusively on the amount of labour going into its production and therefore factor prices will be the same
  - (d) differences in absolute advantage explains differences in factor endowments in different countries
- Q.15) Comparative advantage refers to
- (a) a country's ability to produce some good or service at the lowest possible cost compared to other countries
  - (b) a country's ability to produce some good or service at a lower opportunity cost than other countries.
  - (c) Choosing a productive method which uses minimum of the abundant factor
  - (d) (a) and (b) above
- Q.16) Which of the following would be an example of foreign direct investment from Country X?
- (a) A firm in Country X buys bonds issued by a Chinese computer manufacturer.
  - (b) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors
  - (c) Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm
  - (d) None of the above
- Q.17) Which of the following statement is false in respect of FPI?
- (a) portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments
  - (b) is effected largely by individuals and institutions through the mechanism of capital market
  - (c) is difficult to recover as it involves purely long-term investments and the investors have controlling interest
  - (d) investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.

- Q.18) A foreign direct investor
- (a) May enter India only through automatic route
  - (b) May enter India only through government route
  - (c) May enter India only through equity in domestic enterprises
  - (d) Any of the above
- Q.19) Foreign investments are prohibited in
- (a) Power generation and distribution
  - (b) Highways and waterways
  - (c) Chit funds and Nidhi company
  - (d) Airports and air transport
- Q.20) Which is the leading country in respect of inflow of FDI to India?
- (a) Mauritius
  - (b) USA
  - (c) Japan
  - (d) USA
- Q.21) Which of the following is a component of foreign capital?
- (a) Direct inter government loans
  - (b) Loans from international institutions (e.g. World Bank, IMF, ADB)
  - (c) Soft loans for e.g. from affiliates of World Bank such as IDA
  - (d) All the above
- Q.22) Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?
- (a) Brownfield investment
  - (b) Merger and acquisition
  - (c) Greenfield investment
  - (d) Strategic alliances
- Q.23) Which of the following statements is incorrect?
- (a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.
  - (b) Foreign portfolio investments involve flow of 'financial capital'.
  - (c) Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services.
  - (d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.
- Q.24) Which of the following would be an example of foreign direct investment from Country X?
- (a) A firm in Country X buys bonds issued by a Chinese computer manufacturer.
  - (b) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors
  - (c) Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm
  - (d) None of the above

- Q.25) The WTO commitments
- (a) affect developed countries adversely because they have comparatively less agricultural goods
  - (b) affect developing countries more because they need to make radical adjustments
  - (c) affect both developed and developing countries equally
  - (d) affect none as they increase world trade and ensure prosperity to all
- Q.26) 'Bound tariff' refers to
- (a) clubbing of tariffs of different commodities into one common measure
  - (b) the lower limit of the tariff below which a nation cannot be taxing its imports
  - (c) the upper limit on the tariff that a country can levy on a particular good, according to its commitments under the GATT and WTO.
  - (d) the limit within which the country's export duty should fall so that there are cheaper exports
- Q.27) The Agreement on Agriculture includes explicit and binding commitments made by WTO Member governments
- (a) on increasing agricultural productivity and rural development
  - (b) market access and agricultural credit support
  - (c) market access, domestic support and export subsidies
  - (d) market access, import subsidies and export subsidies
- Q.28) The Agreement on Textiles and Clothing
- (a) provides that textile trade should be deregulated gradually and the tariffs should be increased
  - (b) replaced the Multi-Fiber Arrangement (MFA) which was prevalent since 1974
  - (c) granted rights of textile exporting countries to increase tariffs to protect their domestic textile industries
  - (d) stipulated that tariffs in all countries should be the same
- Q.29) The most controversial topic in the yet to conclude Doha Agenda is
- (a) trade in manufactured goods
  - (b) trade in intellectual property rights-based goods
  - (c) trade in agricultural goods
  - (d) market access to goods from developed countries
- Q.30) Choose the correct statement
- (a) The GATT was meant to prevent exploitation of poor countries by richer countries
  - (b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.
  - (c) All members of the World Trade Organization are required to avoid tariffs of all types
  - (d) All the above
- Q.31) The 'National treatment' principle stands for
- (a) the procedures within the WTO for resolving disagreements about trade policy among countries
  - (b) the principle that imported products are to be treated no worse in the domestic



- Q.38) A countervailing duty is
- (a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country
  - (b) charged by importing countries to ensure fair and market-oriented pricing of imported products
  - (c) charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies
  - (d) All the above
- Q.39) Which of the following is an outcome of tariff?
- (a) create obstacles to trade and increase the volume of imports and exports
  - (b) domestic consumers enjoy consumer surplus because consumers must now pay only a lower price for the good
  - (c) discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes
  - (d) increase government revenues of the importing country by more than value of the total tariff it charges
- Q.40) Under tariff rate quota
- (a) countries promise to impose tariffs on imports from members other than those who are part of a preferential trade agreement
  - (b) a country permits an import of limited quantities at low rates of duty but subjects an excess amount to a much higher rate
  - (c) lower tariff is charged from goods imported from a country which is given preferential treatment
  - (d) none of the above
- Q.41) Which of the following is not a non-tariff barrier.
- (a) Complex documentation requirements
  - (b) Import quotas on specific goods
  - (c) Countervailing duties charged by importing country
  - (d) Pre shipment product inspection and certification requirements
- Q.42) Non -tariff barriers (NTBs) include all of the following except:
- (a) import quotas
  - (b) tariffs
  - (c) export subsidies
  - (d) technical standards of products
- Q.43) 'Vehicle Currency' refers to
- (a) a currency that is widely used to denominate international contracts made by parties because it is the national currency of either of the parties
  - (b) a currency that is traded internationally and, therefore, is in high demand
  - (c) a type of currency used in euro area for synchronization of exchange rates
  - (d) a currency that is widely used to denominate international contracts made by parties even when it is not the national currency of either of the parties

- Q.44) An increase in the supply of foreign exchange
- (a) shifts the supply curve to the right and as a consequence, the exchange rate declines
  - (b) shifts the supply curve to the right and as a consequence, the exchange rate increases
  - (c) more units of domestic currency are required to buy a unit of foreign exchange
  - (d) the domestic currency depreciates and the foreign currency appreciates
- Q.45) All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?
- (a) The demand curve for dollars shifts to the right and Indian Rupee appreciates
  - (b) The supply of US dollars shrinks and, therefore, import prices decrease
  - (c) The demand curve for dollars shifts to the right and Indian Rupee depreciates
  - (d) The demand curve for dollars shifts to the left and leads to an increase in exchange rate
- Q.46) Based on the supply and demand model of determination of exchange rate, which of the following ought to cause the domestic currency of Country X to appreciate against dollar?
- (a) The US decides not to import from Country X
  - (b) An increase in remittances from the employees who are employed abroad to their families in the home country
  - (c) Increased imports by consumers of Country X
  - (d) Repayment of foreign debts by Country X
- Q.47) Currency devaluation
- (a) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries
  - (b) may reduce export prices and increase the international competitiveness of domestic industries
  - (c) may cause a fall in the volume of exports and promote consumer welfare through increased availability of goods and services
  - (d) (a) and (c) above
- Q.48) At any point of time, all markets tend to have the same exchange rate for a given currency due to
- (a) Hedging
  - (b) Speculation
  - (c) Arbitrage
  - (d) Currency futures
- Q.49) "A central bank may implement soft peg policy under which the exchange rate is generally determined by the central bank or a hard peg where the market sets a fixed and unchanging value for the exchange rate."
- a) True
  - b) False
  - c) Partially True
  - d) Partially False

- Q.50) A \_\_\_\_ tariff is one that is set so high that no imports will enter.
- a) Bound
  - b) Preferential
  - c) Prohibited
  - d) None of the above

**ANSWERS**

<b>Q.1</b>	d	<b>Q.21</b>	d	<b>Q.41</b>	c
<b>Q.2</b>	b	<b>Q.22</b>	c	<b>Q.42</b>	b
<b>Q.3</b>	c	<b>Q.23</b>	c	<b>Q.43</b>	d
<b>Q.4</b>	b	<b>Q.24</b>	c	<b>Q.44</b>	a
<b>Q.5</b>	c	<b>Q.25</b>	b	<b>Q.45</b>	c
<b>Q.6</b>	a	<b>Q.26</b>	c	<b>Q.46</b>	b
<b>Q.7</b>	d	<b>Q.27</b>	c	<b>Q.47</b>	b
<b>Q.8</b>	d	<b>Q.28</b>	b	<b>Q.48</b>	c
<b>Q.9</b>	b	<b>Q.29</b>	c	<b>Q.49</b>	a
<b>Q.10</b>	c	<b>Q.30</b>	b	<b>Q.50</b>	c
<b>Q.11</b>	d	<b>Q.31</b>	b		
<b>Q.12</b>	b	<b>Q.32</b>	d		
<b>Q.13</b>	b	<b>Q.33</b>	c		
<b>Q.14</b>	b	<b>Q.34</b>	d		
<b>Q.15</b>	b	<b>Q.35</b>	c		
<b>Q.16</b>	c	<b>Q.36</b>	b		
<b>Q.17</b>	c	<b>Q.37</b>	d		
<b>Q.18</b>	d	<b>Q.38</b>	d		
<b>Q.19</b>	c	<b>Q.39</b>	c		
<b>Q.20</b>	a	<b>Q.40</b>	b		

**CHAPTER 10**  
**INDIAN ECONOMY**

Max Marks 50

**Questions**

- Q.1) Which of the following was the reason for low fertility & productivity of land in British Rule
- a) Subsistence Farming
  - b) Landlordism
  - c) Incentives by British Government
  - d) Both a & b
- Q.2) Nehruvian model of economy supported
- a) Economic redistribution
  - b) Industrialization by State
  - c) Social redistribution
  - d) All of the above
- Q.3) The Industrial Policy Resolution which envisaged and expand the role of public sector and licensing private sector came in force into \_\_\_\_
- a) 1947
  - b) 1948
  - c) 1950
  - d) 1991
- Q.4) 'Udyami Bharat' aims at the empowerment of \_\_\_\_
- a) MSMEs
  - b) Steel Industry
  - c) Education
  - d) Food Industry
- Q.5) \_\_\_ of India's population is directly dependent on agriculture for living
- a) 90%
  - b) 47%
  - c) 85%
  - d) 95%
- Q.6) Indian jute occupied a large share of the international market by the late 19th century
- a) True
  - b) False
  - c) Partially True
  - d) Partially False
- Q.7) In July\_\_\_ the Indian government devalued the rupee by between 18 and 19 percent.
- a) 2001
  - b) 2005
  - c) 1980
  - d) 1991



- Q.8) Literacy rate of India at the time of Independence is about \_\_\_\_
- a) 50%
  - b) 13%
  - c) 18%
  - d) 87%
- Q.9) Nehruvian model was inclined towards \_\_\_\_
- a) Socialism
  - b) Capitalism
  - c) Marshallism
  - d) None of the above
- Q.10) Who was responsible for developing and implementing 5 years plan
- a) Planning Commission
  - b) Niti Aayog
  - c) RBI
  - d) SEBI
- Q.11) \_\_\_\_ of the economy was the cornerstone of Nehru's development strategy
- a) Rapid Industrialization
  - b) Liberalisation
  - c) Downfall
  - d) None of the above
- Q.12) Which sector has state monopoly
- a) Steel
  - b) FMCG
  - c) Railway
  - d) Fashion
- Q.13) A balance of payments crisis emerged in 1958 causing concerns regarding \_\_\_\_
- a) Foreign Exchange Depletion
  - b) Recession for 7 years
  - c) Inflation
  - d) None of the above
- Q.14) India had to depend on the \_\_\_\_ for food aid under PL 480.
- a) Germany
  - b) China
  - c) USA
  - d) Soviet Union
- Q.15) Stringent labor laws which were in place also encouraged starting of labor intensive industries in the organized sector.
- a) True
  - b) False
  - c) Partially True
  - d) Partially False

- Q.16) The \_\_\_\_ act had many restrictive conditions creating barriers for entry, diversification and expansion for large industrial houses.
- a) SEBI
  - b) Custom
  - c) Income Tax
  - d) MRTP
- Q.17) the liberalization in the 1980s served as the necessary foundation for the more universal and organized reforms of the 1990s
- a) True
  - b) False
  - c) Partially True
  - d) Partially False
- Q.18) Which of the following was the major context that triggered economic reforms.
- a) Vietnam War
  - b) The foreign exchange reserves touched the lowest point with a reserve of only \$1.2 billion which was barely sufficient for two weeks of imports
  - c) Great Depression of 1930
  - d) Political instability
- Q.19) The year \_\_\_\_ marked a paradigm shift in the Indian policy reforms.
- a) 1948
  - b) 1951
  - c) 1991
  - d) 2016
- Q.20) In September 1994 to bring down the fiscal deficit in a phased manner to nil by 1997-98 Government entered into historic agreement with \_\_\_\_
- a) LIC
  - b) UTI
  - c) RBI
  - d) TRAI
- Q.21) "Books of commercial banks reflect the accurate and truthful picture of their financial position" was ensured by
- a) Sinha Committee
  - b) Mandal Aayog
  - c) Naidu Committee
  - d) Narasimham Committee
- Q.22) SEBI was given statutory recognition in \_\_\_\_
- a) 1988
  - b) 1992
  - c) 1985
  - d) None of the above

- Q.23) The New Economic Policy put an end to \_\_\_
- a) British Raj
  - b) Favouritism
  - c) License Raj
  - d) All of the above
- Q.24) Find Odd One Out  
Arms and Ammunition, Atomic substances, Narcotic Drugs, Cement
- a) Narcotic Drug
  - b) Cement
  - c) Atomic substance
  - d) Arms & Ammunition
- Q.25) FDI is prohibited only in four sectors
- a) True
  - b) False
  - c) Partially True
  - d) Partially False
- Q.26) For nearly sixty four years \_\_\_\_\_ a powerful advocate of public investment -led development - was one of the most important institutions within India's central government
- a) NITI aayog
  - b) MRTP Commission
  - c) Planning Commission
  - d) None of the above
- Q.27) India has the world's largest cattle herd (buffaloes).The Indian livestock sector attained a record growth of 6.6 per cent during the last decade (2010-19)
- a) True
  - b) False
  - c) Partially True
  - d) Partially False
- Q.28) PM KISAN is \_\_\_
- a) Income support to farmers
  - b) Income Support to factory workers
  - c) Income Support to Mining workers
  - d) All of the above
- Q.29) \_\_\_\_\_ has a role in the formulation and implementation of industrial policy and strategies for industrial development
- a) RBI
  - b) SEBI
  - c) IRDA
  - d) DPIIT

- Q.30) Government has permitted 100 per cent foreign participation in telecommunication services through the Automatic Route including all services and infrastructure providers.
- a) True
  - b) False
  - c) Partially True
  - d) Partially False
- Q.31) The industrial sector depends on the agricultural sector because:
- (a) the agricultural sector provides food and other products for the consumption purposes of industrial sector
  - (b) the agricultural sector provides raw materials for the development of agro -based industries of the economy
  - (c) the agricultural sector provides market for the industrial products
  - (d) all of the above
- Q.32) Which of the following are the features of a mixed economy?
- (a) Planned economy
  - (b) Dual system of pricing exists
  - (c) Balance regional development
  - (d) All of the above
- Q.33) The post independence economic policy was rooted in -
- (a) A capitalist mode of production with heavy industrialization
  - (b) social and economic redistribution and industrialization directed by the state
  - (c) social and economic redistribution through private sector initiatives
  - (d) Industrialization led by private entrepreneurs and redistribution by state
- Q.34) The Indian industry stagnated under the colonial rule because
- (a) Indians were keen on building huge structures and monuments only
  - (b) Deterioration was caused by high prices of inputs due to draught
  - (c) The Indian manufactures could not compete with the imports of cheap machine made goods
  - (d) None of the above
- Q.35) The new economic policy of 1991 manifest in -
- (a) State led industrialization and import substitution
  - (b) Rethinking the role of markets versus the state
  - (c) Emphasized the role of good governance
  - (d) Bringing about reduction in poverty and redistributive justice
- Q.36) The first wave of liberalization starts in India
- (a) In 1951
  - (b) In 1980's
  - (c) In 1990
  - (d) In 1966
- Q.37) The Industrial Policy Resolution (1948) aimed at -
- (a) Market oriented economic reforms and opening up of economy
  - (b) A shift from state led industrialization to private sector led industrialization

- (c) an expanded role for the public sector and licensing to the private sector  
(d) an expanded role of private sector a limited role of public sector
- Q.38) The sequence of growth and structural change in Indian economy is characterized by  
(a) The historical pattern of prominence of sectors as agriculture, industry, services  
(b) The historical pattern of prominence of sectors as industry, services, agriculture  
(c) Unique experience of the sequence as agriculture, services, industry  
(d) All the above are correct
- Q.39) The strategy of agricultural development in India before green revolution was -  
(a) High yielding varieties of seeds and chemical fertilizers to boost productivity  
(b) Institutional reforms such as land reforms  
(c) Technological up gradation of agriculture  
(d) All the above
- Q.40) Merchandise Exports from India Scheme was replaced by -  
(a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021  
(b) National Logistics Policy (NLP) in 2020  
(c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019  
(d) None of the above
- Q.41) Which one of the following is a feature of green revolution -  
(a) use of soil friendly green manure to preserve fertility of soil  
(b) grow more crops by redistributing land to landless people  
(c) High yielding varieties of seeds and scientific cultivation  
(d) Diversification to horticulture
- Q.42) The Foreign Investment Promotion Board (FIPB)  
(a) a government entity through which inward investment proposals were routed to obtain required government approvals  
(b) no more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal  
(c) no more exists as all inward investments are through automatic route and need no approval  
(d) is the body which connects different ministries in respect of foreign portfolio investments
- Q.43) The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -  
(a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few  
(b) to provide for the control of monopolies  
(c) to prohibit monopolistic and restrictive trade practice  
(d) all the above
- Q.44) FAME-India Scheme aims to  
(a) Enhance faster industrialization through private participation  
(b) to promote manufacturing of electric and hybrid vehicle technology  
(c) to spread India's fame among its trading partners  
(d) None of the above

- Q.45) In the context of the new economic policy of 1991, the term 'disinvestment' stands for -
- (a) A policy whereby government investments are reduced to correct fiscal deficit
  - (b) The policy of sale of portion of the government shareholding of a public sector enterprise
  - (c) The policy of public partnership in private enterprise
  - (d) A policy of opening up government monopoly to the private sector
- Q.46) In terms of Ease of Doing Business in 2020 India ranks
- (a) 63
  - (b) 77
  - (c) 45
  - (d) None of the above
- Q.47) The 'Hindu growth rate' is a term used to refer to -
- (a) the high rate of growth achieved after the new economic policy of 1991
  - (b) the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year
  - (c) the low growth of the economy during British period marked by an average of 3.5 percent
  - (d) the growth rate of the country because India is referred to as 'Hindustan'
- Q.48) Imports of foreign goods and entry of foreign investments were restricted in India because
- (a) The government wanted people to follow the policy of 'Be Indian; Buy Indian'
  - (b) Because foreign goods were costly and meant loss of precious foreign exchange
  - (c) Government policy was directed towards protection of domestic industries from foreign competition
  - (d) Government wanted to preserve Indian culture and to avoid influence of foreign culture
- Q.49) Which of the following is not a policy reform included in the new economic policy of 1991
- (a) removing licensing requirements for all industries
  - (b) Foreign investment was liberalized
  - (c) Liberalisation of international trade
  - (d) The disinvestment of government holdings of equity share capital of public sector enterprises
- Q.50) E-NAM is -
- (a) An electronic name card given to citizens of India
  - (b) National Agriculture Market with the objective of creating a unified national market for agricultural commodities.
  - (c) a pan-India electronic trading portal which networks the existing APMC mandis
  - (d) b) and c) above

## ANSWERS

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

**TEST 1****Questions**

- Q.1) Exploitation and inequality are minimal under:  
(a) Socialism  
(b) Capitalism  
(c) Mixed economy  
(d) None of the above
- Q.2) Profit motive is a merit of  
(a) Socialism  
(b) Capitalism  
(c) Mixed economy  
(d) None of the above
- Q.3) Which of the following is not the subject matter of Business Economics?  
(a) Should our firm be in this business?  
(b) How much should be produced and at price should be kept?  
(c) How will the product be placed in the market?  
(d) How should we decrease unemployment in the economy?
- Q.4) Concept of Business Economics was given by:  
(a) Joel Dean  
(b) Alfred Marshall  
(c) Adam Smith  
(d) L. Robbins
- Q.5) The choice between labour- and Capital-intensive techniques is related with:  
(a) What to Produce?  
(b) How to Produce?  
(c) For whom to Produce  
(d) All of the above
- Q.6) The supply curve shifts to the right because of—————  
(a) improved technology  
(b) increased price of factors of production  
(c) increased excise duty  
(d) all of the above #a
- Q.7) If the quantity supplied is exactly equal to the relative change in price then the elasticity of supply is  
(a) Less than one  
(b) Greater than one  
(c) One  
(d) None of the above



- Q.8) An increase in the number of sellers of bikes will increase the
- (a) The price of a bike
  - (b) Demand for bikes
  - (c) The supply of bikes
  - (d) Demand for helmets
- Q.9) The quantity purchased remains constant irrespective of the change in income. This is known as
- (a) negative income elasticity of demand
  - (b) income elasticity of demand less than one
  - (c) zero income elasticity of demand
  - (d) income elasticity of demand is greater than one
- Q.10) By consumer surplus, economists mean
- (a) The area inside the budget line above the price of the commodity
  - (b) The area between the average revenue and marginal revenue curves.
  - (c) The difference between the maximum amount that a person is willing to pay for a good and its market price.
  - (d) The difference between the market price and the supply curve
- Q.11) Successful business firms spend considerable time, energy, and efforts in analyzing the \_\_\_\_\_ for their products.
- (A) Supply
  - (b) Price
  - (c) Demand
  - (d) None of these
- Q.12) The demand for labour in response to the wage rate is \_\_\_\_\_ whereas the demand for same labour in response to the price of electronic goods where labour enters as an input is \_\_\_\_ .
- (a) Derived Demand, Direct Demand
  - (b) Direct Demand, Derived Demand
  - (c) Individual Demand, Market Demand
  - (d) Company Demand, Industry Demand
- Q.13) During lockdown due to COVID-19, a consumer finds the vegetable vendors selling vegetables in the street have raised the prices of vegetables than usual prices. She will buy \_\_\_\_\_ vegetables than/as her usual demand showing the demand of vegetables is \_\_\_\_.
- (a) more, inelastic demand
  - (b) less, elastic demand
  - (c) same, inelastic demand
  - (d) same, elastic demand
- Q.14) The law of consumer surplus is based on:
- (a) indifferent curve analysis
  - (b) revealed preference theory
  - (c) law of substitution
  - (d) the law of diminishing marginal utility

- Q.15) Traditional approach of law of demand was propounded by\_\_\_\_.
- (a) Giffen
  - (b) Paul A Samuelson
  - (c) Alfred Marshall
  - (d) Pique
- Q.16) Marginal cost changes due to changes in -----
- (a) Total cost
  - (b) Average cost
  - (c) Variable cost
  - (d) Quantity of output
- Q.17) A firm's long-run average total cost curve is.
- (a) Identical to its long-run marginal-cost curve as all factors are variable.
  - (b) Also its long-run total cost curve because it explains the relationship cost and quantity supplied in the long run.
  - (c) In fact the average total cost curve of the optimal plant in the short run as it tries to produce at least cost.
  - (d) Tangent to all short-run average total cost the curves and represents the lowest average total cost for producing each level of output.
- Q.18) Average product is defined as
- (a) total product divided by the total cost.
  - (b) total product divided by marginal product.
  - (c) total product divided by the number of units of variable input.
  - (d) marginal product divided by the number of units of variable input.
- Q.19) In describing a given production technology, the short run is best described as lasting:
- (a) up to six months from now.
  - (b) up to five years from now.
  - (c) as long as all inputs are fixed.
  - (d) as long as at least one input is fixed.
- Q.20) Which of the following statements is correct concerning the relationships among the firm's cost functions?
- (a)  $TC = TFC - TVC$ .
  - (b)  $TVC = TFC - TC$ .
  - (c)  $TFC = TC - TVC$ .
  - (d)  $TC = TVC - TFC$
- Q.21) The cost incurred in the past before we make a decision about what to do in the future.
- (a)
  - (b)
  - (c) That which we forgo or give up when we make a choice or a decision.
  - (d) The additional benefit of buying an additional unit of a product.

- Q.22) Given  $TC = 2000 + 15Q - 6Q^2 + Q^3$ . How much is TFC at  $Q = 2000$ ?
- (a) 2000
  - (b) 975
  - (c) 30,000
  - (d) Can't be determined
- Q.23) Which of the following is not a determinant of the firm's cost function?
- (a) Taxes
  - (b) The Production Function
  - (c) The Price of the firm's output
  - (d) Subsidies
- Q.24) Under the law of variable proportion, stage I is known as the stage of increasing returns because:
- (a) Marginal product of the variable factor increases throughout this stage
  - (b) Average product of the variable factor increases throughout this stage
  - (c) Marginal product increases at increasing rate throughout this stage
  - (d) Total increases at increasing rate throughout this stage
- Q.25) Production function:  $Q = 4L^{1/2}K^{2/3}$  exhibits:
- (a) increasing returns to scale
  - (b) decreasing returns to scale
  - (c) constant returns to scale
  - (d) increasing returns to a factor
- Q.26) Which of the following is not a characteristic of a "price-taker"?
- (a)  $TR = P \times Q$
  - (b)  $AR = Price$
  - (c) Negatively – sloped demand curve
  - (d)  $Marginal Revenue = Price$
- Q.27) Which of the following is not a condition of perfect competition?
- (a) A large number of firms.
  - (b) Perfect mobility of factors.
  - (c) Informative advertising to ensure that consumers have good information.
  - (d) Freedom of entry and exit into and out of the market.
- Q.28) Oligopolistic industries are characterized by:
- (a) a few dominant firms and substantial barriers to entry.
  - (b) a few large firms and no entry barriers.
  - (c) a large number of small firms and no entry barriers.
  - (d) one dominant firm and low entry barriers.
- Q.29) Average revenue curve is also known as:
- (a) Profit Curve
  - (b) Demand Curve
  - (c) Average Cost Curve
  - (d) Indifference Curve

- Q.30) Under perfect competition, in the long run, there will be no \_\_\_\_\_ .
- (a) normal profits
  - (b) supernormal profits.
  - (c) production
  - (d) costs.
- Q.31) The market for hand tools (such as hammers and screwdrivers) is dominated by Draper, Stanley, and Craftsman. This market is best described as
- (a) Monopolistically competitive
  - (b) a monopoly
  - (c) an oligopoly
  - (d) perfectly competitive
- Q.32) Secular period is also known as
- (a) very short period
  - (b) short period
  - (c) very long period
  - (d) long period
- Q.33) Which of the following is true of an imperfect market structure?
- (a) Participants in the market have little or no control over outcome in the market.
  - (b) Consumer surplus is maximized.
  - (c) The maximization of producer surplus may lead to a loss of net benefit for society.
  - (d) Imperfect market structures include monopolies but not cartels.
- Q.34) Marginal revenue of a firm is constant throughout under:
- (a) Perfect Competition
  - (b) Monopolistic Competition
  - (c) Oligopoly
  - (d) All the above
- Q.35) 'Interdependence Between Firms' is a feature of which type of market form:
- (a) Oligopoly
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) Perfect Competition
- Q.36) A monopolist is able to maximize his profits when:
- (a) his output is maximum
  - (b) he charges a high price
  - (c) his average cost is minimum
  - (d) his marginal cost is equal to marginal revenue
- Q.37) For a Price taking firm:
- (a) Marginal revenue is less than Price
  - (b) Marginal revenue is equal to Price
  - (c) The relationship between behavior marginal revenue and Price is indeterminate
  - (d) Marginal revenue is greater than price

- Q.38) Perfectly Competitive firm and industry are both in long run equilibrium when:
- (a)  $P = MR = SMC = LMC$
  - (b)  $P = MR =$  Lowest point on the LAC
  - (c)  $P = MR = SAC = LAC$
  - (d) All of the above
- Q.39) In economics, generally the classification of the markets is made on the basis of:
- (a) Time
  - (b) Geographic area
  - (c) Volume of business
  - (d) All of these
- Q.40) Price discrimination is a situation when a producer:
- (a) Charge same price
  - (b) Charges may prices
  - (c) Charges different prices in different market
  - (d) None of these.
- Q.41) The cobweb theory was propounded by \_\_\_\_\_
- (a) Hawtrey
  - (b) Adam Smith
  - (c) J M Keynes
  - (d) Nicholas Kaldor
- Q.42) Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called \_\_\_\_\_.
- (a) Signals
  - (b) Indicators
  - (c) Barometer
  - (d) Clues
- Q.43) Which of the following is not an example of coincident indicator?
- (a) Industrial production
  - (b) inflation
  - (c) Retail sales
  - (d) New orders for plant and equipment
- Q.44) Peaks and troughs of the business cycle are known collectively as
- (a) Volatility.
  - (b) Turning points.
  - (c) Equilibrium points.
  - (d) Real business cycle events.
- Q.45) Which of the following does not occur during an expansion?
- (a) Consumer purchases of all types of goods tend to increase.
  - (b) Employment increases as demand for labour rises.
  - (c) Business profits and business confidence tend to increase
  - (d) None of the above

- Q.46) The concept of 'resident unit' involved in the definition of GDP denotes
- (a) A business enterprise which belongs to a citizen of India with production units solely situated in India
  - (b) The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status
  - (c) A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India
  - (d) Households and business enterprises composed of citizens of India alone living in India during the accounting year
- Q.47) Which of the following is an example of transfer payment?
- (a) Old age pensions and family pensions
  - (b) Scholarships given to deserving diligent students.
  - (c) Compensation given for loss of property due to floods
  - (d) All the above
- Q.48) If net factor income from abroad is positive, then
- (a) national income will be greater than domestic factor incomes.
  - (b) national income will be less than domestic factor incomes.
  - (c) net exports will be negative
  - (d) domestic factor incomes will be greater than national income
- Q.49) Which of the following enters into the calculation of national income?
- (a) The value of the services that accompany the sale
  - (b) Additions to inventory stocks of final goods and materials
  - (c) Stocks and bonds sold during the current year
  - (d) (a) and (b) above
- Q.50) If the consumption function is expressed as  $C = a + bY$  then  $a$  represents
- (a) autonomous consumer expenditure.
  - (b) the marginal propensity to consume.
  - (c) the consumption income relationship
  - (d) Non-linear consumption function
- Q.51) Keynes believed that an economy may attain equilibrium level of output
- (a) only at the full-employment level of output
  - (b) below the full-employment level of output
  - (c) only if prices were inflexible
  - (d) a) and c) above
- Q.52) If the autonomous consumption equals ` 2,000 and the marginal propensity to consume equals 0.8. If disposable income equals ` 10,000, then total consumption will be ` \_\_\_\_
- (a) 8,000
  - (b) 6,000
  - (c) 10,000
  - (d) None of the above

- Q.53) Which of the following is a limitation of using GDP as a measure of economic well-being?
- (a) It includes only monetary transactions.
  - (b) It does not account for income distribution.
  - (c) It considers both market and non-market activities.
  - (d) It is not affected by inflation
- Q.54) What is the purpose of a voluntary export restraint (VER)?
- (a) To limit the quantity of exports.
  - (b) To encourage foreign producers to export more
  - (c) To reduce the cost of imports.
  - (d) To comply with international trade agreements.
- Q.55) Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
  - (b) Exports
  - (c) Imports & exports
  - (d) None of the above
- Q.56) What is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach?
- (a)  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$
  - (b)  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$
  - (c)  $GDP = \text{Consumption} + \text{Investment}$
  - (d)  $GDP = \text{Consumption} + \text{Net Exports}$
- Q.57) Which component of National Income represents the income earned by individuals and businesses before taxes and other deductions?
- (a) Personal Income
  - (b) Disposable Income
  - (c) Gross National Product (GNP)
  - (d) Gross Domestic Product (GDP)
- Q.58) The concept of the "multiplier effect" in Keynesian economics refers to:
- (a) The impact of interest rates on investment
  - (b) The magnification of an initial change in spending throughout the economy
  - (c) The impact of taxes on consumer spending
  - (d) The role of exports in economic growth
- Q.59) The concept of "animal spirits" in Keynesian theory refers to:
- (a) The unpredictable behavior of financial markets
  - (b) Psychological factors influencing economic decisions
  - (c) Government regulations affecting business confidence
  - (d) The impact of interest rates on investment
- Q.60) A recession is a decline in:
- (a) The unemployment rate that lasts six months or longer
  - (b) Real GDP that lasts six months or longer
  - (c) Potential GDP that lasts six months or longer
  - (d) The inflation rate that lasts six months or longer

- Q.61) Providing social sector services such as health and education is
- (a) the responsibility of the central government
  - (b) the responsibility of the respective state governments
  - (c) the responsibility of local administrative bodies
  - (d) none of the above
- Q.62) Which one of the following taxes is levied by the state government only?
- (a) Corporation tax
  - (b) Wealth tax
  - (c) Income tax
  - (d) None of the above
- Q.63) In a federal set up, the stabilization function can be effectively performed by
- (a) Respective state governments
  - (b) Ministry of taxes
  - (c) The government at the centre
  - (d) None of the above
- Q.64) The free rider problem arises because of
- (a) ability of participants to produce goods at zero marginal cost
  - (b) marginal benefit cannot be calculated due to externalities present
  - (c) the good or service is non excludable
  - (d) general poverty and unemployment of people
- Q.65) Budget of the government generally impacts
- (a) the resource allocation in the economy
  - (b) redistribution of income and enhance equity
  - (c) stability in the economy by measures to control price fluctuations
  - (d) all the above
- Q.66) Which one of the following is an example of fiscal policy?
- (a) A tax cut aimed at increasing the disposable income and spending
  - (b) A reduction in government expenditure to contain inflation
  - (c) An increase in taxes and decrease in government expenditure to control inflation
  - (d) All the above
- Q.67) What was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003?
- (a) Achieve Fiscal Surplus
  - (b) Stop Money Laundering
  - (c) Eliminate Fiscal Deficit
  - (d) Eliminate Revenue deficit
- Q.68) Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?
- (a) Consumption and government purchases went up since you bought a used car and government bonds



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

Q.69) The expenditure multiplier is used to calculate the change in:

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

Q.70) Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?

- (a) National debt
- (b) Budget surplus
- (c) Fiscal deficit
- (d) Revenue deficit

Q.71) The Cambridge approach to quantity theory is also known as

- (a) Cash balance approach
- (b) Fisher's theory of money
- (c) Classical approach
- (d) Keynesian Approach

Q.72) Choose the incorrect statement

- (a) Anything that would act as a medium of exchange is money
- (b) Money has generalized purchasing power and is generally acceptable in settlement of all transactions
- (c) Money is a totally liquid asset and provides us with means to access goods and services
- (d) Currency which represents money does not necessarily have intrinsic value.

Q.73) According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:

- (a) a positive function of income  $Y$  and the price level  $P$
- (b) a positive function of transactions costs  $c$
- (c) a negative function of the nominal interest rate
- (d) All the above

Q.74) Under the 'minimum reserve system' the central bank is

- (a) empowered to issue currency to any extent by keeping an equivalent reserve of gold and foreign securities.
- (b) empowered to issue currency to any extent by keeping only a certain minimum reserve of gold and foreign securities.
- (c) empowered to issue currency in proportion to the reserve money by keeping only

- a minimum reserve of gold and foreign securities.
- (d) empowered to issue currency to any extent by keeping a reserve of gold and foreign securities to the extent of ` 350 crores
- Q.75) The money multiplier and the money supply are
- (a) positively related to the excess reserves ratio e.
  - (b) negatively related to the excess reserves ratio e.
  - (c) not related to the excess reserves ratio
  - (d) proportional to the excess reserves ratio
- Q.76) The ratio that relates the change in the money supply to a given change in the monetary base is called the
- (a) required reserve ratio.
  - (b) money multiplier.
  - (c) deposit ratio.
  - (d) discount rate
- Q.77) The Monetary Policy Framework Agreement is on
- (a) the maximum repo rate that RBI can charge from government
  - (b) the maximum tolerable inflation rate that RBI should target to achieve price stability.
  - (c) the maximum repo rate that RBI can charge from the commercial banks
  - (d) the maximum reverse repo rate that RBI can charge from the commercial banks
- Q.78) During deflation
- (a) the RBI reduces the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
  - (b) the RBI increases the CRR in order to enable the banks to expand credit and increase the supply of money available in the economy
  - (c) the RBI reduces the CRR in order to enable the banks to contract credit and increase the supply of money available in the economy
  - (d) the RBI reduces the CRR but increase SLR in order to enable the banks to contract credit and increase the supply of money available in the economy
- Q.79) Which of the following is included in M2, a broader measure of money supply compared to M1?
- (a) Currency in circulation
  - (b) Savings deposits
  - (c) Demand deposits
  - (d) Travellers' checks
- Q.80) A central bank that wants to stabilize the economy in the short run should try to:
- (a) establish a clear inflation target and stick to it no matter what
  - (b) affect aggregate supply through open market operations
  - (c) affect aggregate demand through open market operations
  - (d) concentrate only on long-run goals

- Q.81) Comparative advantage refers to
- (a) a country's ability to produce some good or service at the lowest possible cost compared to other countries
  - (b) a country's ability to produce some good or service at a lower opportunity cost than other countries.
  - (c) Choosing a productive method which uses minimum of the abundant factor
  - (d) (a) and (b) above
- Q.82) The theory of absolute advantage states that
- (a) national wealth and power are best served by increasing exports and decreasing imports
  - (b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
  - (c) that the value or price of a commodity depends exclusively on the amount of labour going into its production and therefore factor prices will be the same
  - (d) differences in absolute advantage explains differences in factor endowments in different countries
- Q.83) A countervailing duty is
- (a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country
  - (b) charged by importing countries to ensure fair and market-oriented pricing of imported products
  - (c) charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies
  - (d) All the above
- Q.84) Non -tariff barriers (NTBs) include all of the following except:
- (a) import quotas
  - (b) tariffs
  - (c) export subsidies
  - (d) technical standards of products
- Q.85) The essence of 'MFN principle' is
- (a) equality of treatment of all member countries of WTO in respect of matters related to trade
  - (b) favour one, country, you need to favour all in the same manner
  - (c) every WTO member will treat all its trading partners equally without any prejudice and discrimination
  - (d) all the above
- Q.86) Currency devaluation
- (a) may increase the price of imported commodities and, therefore, reduce the international competitiveness of domestic industries
  - (b) may reduce export prices and increase the international competitiveness of domestic industries
  - (c) may cause a fall in the volume of exports and promote consumer welfare through

- increased availability of goods and services
- (d) (a) and (c) above
- Q.87) At any point of time, all markets tend to have the same exchange rate for a given currency due to
- (a) Hedging
  - (b) Speculation
  - (c) Arbitrage
  - (d) Currency futures
- Q.88) Foreign investments are prohibited in
- (a) Power generation and distribution
  - (b) Highways and waterways
  - (c) Chit funds and Nidhi company
  - (d) Airports and air transport
- Q.89) The quantity of dollars supplied will decrease if:
- (a) imports into the United States increase.
  - (b) the expected future exchange rate falls.
  - (c) the interest rate in the United States falls.
  - (d) fewer U.S. residents travel abroad.
- Q.90) Theory of Mercantilism propagates:
- (a) Encourage exports and imports
  - (b) Encourage exports and discourage imports
  - (c) Discourage exports and imports
  - (d) Discourage exports and encourage imports
- Q.91) The first wave of liberalization starts in India
- (a) In 1951
  - (b) In 1980's
  - (c) In 1990
  - (d) In 1966
- Q.92) Merchandise Exports from India Scheme was replaced by -
- (a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021
  - (b) National Logistics Policy (NLP) in 2020
  - (c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019
  - (d) None of the above
- Q.93) Imports of foreign goods and entry of foreign investments were restricted in India because
- (a) The government wanted people to follow the policy of 'Be Indian; Buy Indian'
  - (b) Because foreign goods were costly and meant loss of precious foreign exchange
  - (c) Government policy was directed towards protection of domestic industries from foreign competition
  - (d) Government wanted to preserve Indian culture and to avoid influence of foreign culture

- Q.94) In the context of the new economic policy of 1991, the term 'disinvestment' stands for -
- (a) A policy whereby government investments are reduced to correct fiscal deficit
  - (b) The policy of sale of portion of the government shareholding of a public sector enterprise
  - (c) The policy of public partnership in private enterprise
  - (d) A policy of opening up government monopoly to the private sector
- Q.95) The post-independence economic policy was rooted in -
- (a) A capitalist mode of production with heavy industrialization
  - (b) social and economic redistribution and industrialization directed by the state
  - (c) social and economic redistribution through private sector initiatives
  - (d) Industrialization led by private entrepreneurs and redistribution by state
- Q.96) The industrial sector depends on the agricultural sector because:
- (a) the agricultural sector provides food and other products for the consumption purposes of industrial sector
  - (b) the agricultural sector provides raw materials for the development of agro-based industries of the economy
  - (c) the agricultural sector provides market for the industrial products
  - (d) all of the above
- Q.97) Countries with higher saving rates may have higher equilibrium growth rates since:
- (a) people who save more also are more industrious
  - (b) higher income allows for more savings
  - (c) a higher saving rate allows for more investment in human capital which ultimately enhances economic growth
  - (d) having more capital equipment is more important than having better capital equipment
- Q.98) Which of the following are the features of a mixed economy?
- (a) Planned economy
  - (b) Dual system of pricing exists
  - (c) Balance regional development
  - (d) All of the above
- Q.99) The new economic policy of 1991 manifest in -
- (a) State led industrialization and import substitution
  - (b) Rethinking the role of markets versus the state
  - (c) Emphasized the role of good governance
  - (d) Bringing about reduction in poverty and redistributive justice
- Q.100) The sequence of growth and structural change in Indian economy is characterized by
- (a) The historical pattern of prominence of sectors as agriculture, industry, services
  - (b) The historical pattern of prominence of sectors as industry, services, agriculture
  - (c) Unique experience of the sequence as agriculture, services, industry
  - (d) All the above are correct

## ANSWERS

<b>No.1</b>	a	<b>No.21</b>	c	<b>No.41</b>	d	<b>No.61</b>	b	<b>No.81</b>	b
<b>No.2</b>	b	<b>No.22</b>	a	<b>No.42</b>	b	<b>No.62</b>	d	<b>No.82</b>	b
<b>No.3</b>	d	<b>No.23</b>	c	<b>No.43</b>	d	<b>No.63</b>	c	<b>No.83</b>	d
<b>No.4</b>	a	<b>No.24</b>	b	<b>No.44</b>	b	<b>No.64</b>	c	<b>No.84</b>	b
<b>No.5</b>	b	<b>No.25</b>	a	<b>No.45</b>	d	<b>No.65</b>	d	<b>No.85</b>	d
<b>No.6</b>	a	<b>No.26</b>	c	<b>No.46</b>	b	<b>No.66</b>	d	<b>No.86</b>	b
<b>No.7</b>	c	<b>No.27</b>	c	<b>No.47</b>	d	<b>No.67</b>	c	<b>No.87</b>	c
<b>No.8</b>	c	<b>No.28</b>	a	<b>No.48</b>	a	<b>No.68</b>	d	<b>No.88</b>	c
<b>No.9</b>	c	<b>No.29</b>	b	<b>No.49</b>	d	<b>No.69</b>	b	<b>No.89</b>	d
<b>No.10</b>	c	<b>No.30</b>	b	<b>No.50</b>	a	<b>No.70</b>	a	<b>No.90</b>	b
<b>No.11</b>	c	<b>No.31</b>	c	<b>No.51</b>	b	<b>No.71</b>	a	<b>No.91</b>	b
<b>No.12</b>	b	<b>No.32</b>	c	<b>No.52</b>	c	<b>No.72</b>	a	<b>No.92</b>	a
<b>No.13</b>	c	<b>No.33</b>	a	<b>No.53</b>	b	<b>No.73</b>	d	<b>No.93</b>	c
<b>No.14</b>	d	<b>No.34</b>	a	<b>No.54</b>	a	<b>No.74</b>	b	<b>No.94</b>	b
<b>No.15</b>	c	<b>No.35</b>	a	<b>No.55</b>	c	<b>No.75</b>	b	<b>No.95</b>	b
<b>No.16</b>	c	<b>No.36</b>	d	<b>No.56</b>	b	<b>No.76</b>	b	<b>No.96</b>	d
<b>No.17</b>	d	<b>No.37</b>	b	<b>No.57</b>	a	<b>No.77</b>	b	<b>No.97</b>	c
<b>No.18</b>	c	<b>No.38</b>	d	<b>No.58</b>	b	<b>No.78</b>	a	<b>No.98</b>	d
<b>No.19</b>	d	<b>No.39</b>	d	<b>No.59</b>	b	<b>No.79</b>	b	<b>No.99</b>	b
<b>No.20</b>	c	<b>No.40</b>	c	<b>No.60</b>	b	<b>No.80</b>	c	<b>No.100</b>	c

**TEST 2**

Max Marks 100

**Questions**

- Q.1) Which of the following is a normative economic statement?
- (a) Unemployment rate decreases with industrialization
  - (b) Economics is a social science that studies human behaviour.
  - (c) The minimum wage should be raised to ` 200/- per day
  - (d) India spends a huge amount of money on national defence.
- Q.2) Which of the following pairs of goods is an example of substitutes?
- (a) Tea and sugar.
  - (b) Tea and coffee.
  - (c) Pen and ink.
  - (d) Shirt and trousers.
- Q.3) Which of the following is considered production in Economics?
- (a) Tilling of soil.
  - (b) Singing a song before friends.
  - (c) Preventing a child from falling into a manhole on the road.
  - (d) Painting a picture for pleasure.
- Q.4) Assume that when price is Rs. 20, the quantity demanded is 15 units, and when price is Rs. 18, the quantity demanded is 16 units. Based on this information, what is the marginal revenue resulting from an increase in output from 15 units to 16 units?
- (a) ` 18
  - (b) ` 16
  - (c) ` 12
  - (d) ` 28
- Q.5) The term business cycle refers to
- (a) the ups and downs in production of commodities
  - (b) the fluctuating levels of economic activity over a period of time
  - (c) decline in economic activities over prolonged period of time
  - (d) increasing unemployment rate and diminishing rate of savings
- Q.6) Read the following statements and answer the following question.
- I. Intermediate consumption consists of the value of the goods and services consumed as inputs by a process of production
  - II. Intermediate consumption excludes fixed assets whose consumption is recorded as consumption of fixed capital.
- (a) Only I is true
  - (b) Both I and II are true
  - (c) Only II is true
  - (d) Neither I nor II is true

- Q.7) Redistribution policies are likely to have efficiency costs because
- (a) They will reduce the efficiency of governments
  - (b) They may create disincentives to work and save
  - (c) Governments have to forego taxes
  - (d) They are likely to make the poor people dependent on the rich
- Q.8) Money performs all of the three functions mentioned below, namely
- (a) medium of exchange, price control, store of value
  - (b) unit of account, store of value , provide yields
  - (c) medium of exchange, unit of account, store of value
  - (d) medium of exchange, unit of account, income distribution
- Q.9) Which of the following does not represent a difference between internal trade and international trade?
- (a) transactions in multiple currencies
  - (b) homogeneity of customers and currencies
  - (c) differences in legal systems
  - (d) none of the above
- Q.10) The Indian industry stagnated under the colonial rule because
- (a) Indians were keen on building huge structures and monuments only
  - (b) Deterioration was caused by high prices of inputs due to draught
  - (c) The Indian manufactures could not compete with the imports of cheap machine made goods
  - (d) None of the above
- Q.11) Economists regard decision making as important because:
- (a) The resources required to satisfy our unlimited wants and needs are finite, or scarce.
  - (b) It is crucial to understand how we can best allocate our scarce resources to satisfy society's unlimited wants and needs.
  - (c) Resources have alternative uses.
  - (d) All the above
- Q.12) The Law of Demand, assuming other things to remain constant, establishes the relationship between:
- (a) income of the consumer and the quantity of a good demanded by him.
  - (b) price of a good and the quantity demanded.
  - (c) price of a good and the demand for its substitute.
  - (d) quantity demanded of a good and the relative prices of its complementary goods.
- Q.13) In the production of wheat, all of the following are variable factors that are used by the farmer except:
- (a) the seed and fertilizer used when the crop is planted.
  - (b) the field that has been cleared of trees and in which the crop is planted.
  - (c) the tractor used by the farmer in planting and cultivating not only wheat but also corn and barley.



- (d) the number of hours that the farmer spends in cultivating the wheat fields.
- Q.14) Suppose that a sole proprietorship is earning total revenues of ` 1,00,000 and is incurring explicit costs of ` 75,000. If the owner could work for another company for ` 30,000 a year, we would conclude that :
- (a) The firm is incurring an economic loss.
  - (b) Implicit costs are ` 25,000.
  - (c) The total economic costs are ` 1,00,000.
  - (d) The individual is earning an economic profit of ` 25,000.
- Q.15) A leading indicator is
- (a) a variable that tends to move along with the level of economic activity
  - (b) a variable that tends to move in advance of aggregate economic activity
  - (c) a variable that tends to move consequent on the level of aggregate economic activity
  - (d) None of the above
- Q.16) Non-economic activities are
- (a) those activities whose value is excluded from national income calculation as it will involve double counting
  - (b) those which produce goods and services, but since these are not exchanged in a market transaction they do not command any market value
  - (c) those which do not involve production of goods and services as they are meant to provide hobbies and leisure time activities
  - (d) those which result in production for self-consumption and therefore not included in national income calculation
- Q.17) Macroeconomic stabilization may be achieved through
- (a) Free market economy
  - (b) Fiscal policy
  - (c) Monetary policy
  - (d) (b) and (c) above
- Q.18) The quantity theory of money holds that
- (a) changes in the general level of commodity prices are caused by changes in the quantity of money
  - (b) there is strong relationship between money and price level and the quantity of money is the main determinant of the price
  - (c) changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation
  - (d) All the above
- Q.19) Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports
- (a) Capitalism
  - (b) Socialism
  - (c) Mercantilism
  - (d) Laissez faire

- Q.20) The sequence of growth and structural change in Indian economy is characterized by
- (a) The historical pattern of prominence of sectors as agriculture, industry, services
  - (b) The historical pattern of prominence of sectors as industry, services, agriculture
  - (c) Unique experience of the sequence as agriculture, services, industry
  - (d) All the above are correct
- Q.21) Which of the following does not suggest a macro approach for India?
- (a) Determining the GNP of India.
  - (b) Finding the causes of failure of ABC Ltd.
  - (c) Identifying the causes of inflation in India.
  - (d) Analyse the causes of failure of industry in providing large scale employment
- Q.22) All of the following are determinants of demand except:
- (a) Tastes and preferences.
  - (b) Quantity supplied.
  - (c) Income of the consumer
  - (d) Price of related goods.
- Q.23) The marginal, average, and total product curves encountered by the firm producing in the short run exhibit all of the following relationships except:
- (a) when total product is rising, average and marginal product may be either rising or falling.
  - (b) when marginal product is negative, total product and average product are falling.
  - (c) when average product is at a maximum, marginal product equals average product, and total product is rising.
  - (d) when marginal product is at a maximum, average product equals marginal product, and total product is rising.
- Q.24) It is assumed in economic theory that
- (a) decision making within the firm is usually undertaken by managers, but never by the owners.
  - (b) the ultimate goal of the firm is to maximise profits, regardless of firm size or type of business organisation.
  - (c) as the firm's size increases, so do its goals.
  - (d) the basic decision making unit of any firm is its owners.
- Q.25) Different business cycles \_\_\_\_ in duration and intensity.
- (a) differ
  - (b) similar
  - (c) consistent
  - (d) Can't say
- Q.26) Gross National Product at market prices GNP MP is
- (a) GDP MP + Net Factor Income from Abroad
  - (b) GDP MP - Net Factor Income from Abroad
  - (c) GDP MP - Depreciation
  - (d) GDP MP + Net Indirect Taxes

Q.27) Read the following statements:

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

Q.28) Fisher's approach and the Cambridge approach to demand for money consider

- (a) money's role in acting as a store of value and therefore, demand for money is for storing value temporarily.
- (b) money as a means of exchange and therefore demand for money is termed as for liquidity preference
- (c) money as a means of transactions and therefore, demand for money is only transaction demand for money.
- (d) None of the above

Q.29) A tariff on imports is beneficial to domestic producers of the imported good because

- (a) they get a part of the tariff revenue
- (b) it raises the price for which they can sell their product in the domestic market
- (c) it determines the quantity that can be imported to the country
- (d) it reduces their producer surplus, making them more efficient

Q.30) FAME-India Scheme aims to

- (a) Enhance faster industrialization through private participation
- (b) to promote manufacturing of electric and hybrid vehicle technology
- (c) to spread India's fame among its trading partners
- (d) None of the above

Q.31) Larger production of \_\_\_goods would lead to higher production in future.

- (a) consumer goods
- (b) capital goods
- (c) agricultural goods
- (d) public goods

Q.32) If a good is a luxury, its income elasticity of demand is:

- (a) Positive and less than 1.
- (b) Negative but greater than -1.
- (c) Positive and greater than 1.
- (d) Zero.

- Q.33) Diminishing returns occur:
- (a) when units of a variable input are added to a fixed input and total product falls.
  - (b) when units of a variable input are added to a fixed input and marginal product falls.
  - (c) when the size of the plant is increased in the long run.
  - (d) when the quantity of the fixed input is increased and returns to the variable input falls.
- Q.34) Suppose the technology for producing personal computers improves and, at the same time, individuals discover new uses for personal computers so that there is greater utilisation of personal computers. Which of the following will happen to equilibrium price and equilibrium quantity?
- (a) Price will increase; quantity cannot be determined.
  - (b) Price will decrease; quantity cannot be determined.
  - (c) Quantity will increase; price cannot be determined.
  - (d) Quantity will decrease; price cannot be determined.
- Q.35) Coincident indicator is not indicated as:
- (a) Inflation
  - (b) Industrial Production
  - (c) Retail Sales
  - (d) New order for Plant and equipment
- Q.36) Which of the following is added to national income while calculating personal income?
- (a) Transfer payments to individuals
  - (b) Undistributed profits of corporate
  - (c) Transfer payments made to foreigners
  - (d) Mixed income of self employed
- Q.37) Which of the following is an outcome of market power?
- (a) makes price equal to marginal cost and produce a positive external benefit on others
  - (b) can cause markets to be efficient due to reduction in costs
  - (c) makes the firms price makers and restrict output so as to make allocation inefficient
  - (d) (b) and(c) above
- Q.38) Reserve money is also known as
- (a) central bank money
  - (b) base money
  - (c) high powered money
  - (d) all the above
- Q.39) SPS measures and TBTs are
- (a) permissible under WTO to protect the interests of countries
  - (b) may result in loss of competitive advantage of developing countries
  - (c) increases the costs of compliance to the exporting countries
  - (d) All the above

- Q.40) The 'Hindu growth rate' is a term used to refer to -
- (a) the high rate of growth achieved after the new economic policy of 1991
  - (b) the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year
  - (c) the low growth of the economy during British period marked by an average of 3.5 percent
  - (d) the growth rate of the country because India is referred to as 'Hindustan'
- Q.41) Scarcity definition of Economics is given by-
- (a) Alfred Marshall
  - (b) Samuelson
  - (c) Robinson
  - (d) Adam Smith
- Q.42) Which of the following statements about price elasticity of supply is correct?
- (a) Price elasticity of supply is a measure of how much the quantity supplied of a good responds to a change in the price of that good
  - (b) Price elasticity of supply is computed as the percentage change in quantity supplied divided by the percentage change in price
  - (c) Price elasticity of supply in the long run would be different from that of the short run
  - (d) All the above
- Q.43) Which of the following cost curves is never 'U' shaped?
- (a) Average cost curve.
  - (b) Marginal cost curve.
  - (c) Average variable cost curve.
  - (d) Average fixed cost curve.
- Q.44) Monopolistic competition differs from perfect competition primarily because
- (a) in monopolistic competition, firms can differentiate their products.
  - (b) in perfect competition, firms can differentiate their products.
  - (c) in monopolistic competition, entry into the industry is blocked.
  - (d) in monopolistic competition, there are relatively few barriers to entry.
- Q.45) Economy's historical performance was reflected by:
- (a) Lagging indicating
  - (b) Leading indicating
  - (c) Either (a) or (b)
  - (d) None of these
- Q.46) In the Keynesian model, equilibrium aggregate output is determined by
- (a) aggregate demand
  - (b) consumption function
  - (c) the national demand for labor
  - (d) the price level

- Q.47) A chemical factory has full information regarding the risks of a product, but continues to sell it. This is possible because of
- (a) asymmetric information
  - (b) moral hazard
  - (c) free riding
  - (d) (a) and (c) above
- Q.48) The primary source of money supply in all countries is
- (a) the Reserve Bank of India
  - (b) the Central bank of the country
  - (c) the Bank of England
  - (d) the Federal Reserve
- Q.49) The Agreement on Trade-Related Aspects of Intellectual Property Rights
- (a) stipulates to administer a system of enforcement of intellectual property rights.
  - (b) provides for most-favoured-nation treatment and national treatment for intellectual properties
  - (c) mandates to maintain high levels of intellectual property protection by all members
  - (d) all the above
- Q.50) Freedom of choice is the advantage of \_\_\_\_.
- (a) Socialism
  - (b) Capitalism
  - (c) Communism
  - (d) None of the above
- Q.51) Marshallian theory of consumer's behaviour is based on:
- (a) Hypothesis of additive utilities.
  - (b) Hypothesis of independent utilities.
  - (c) Both (A) and (B)
  - (d) Weak ordering
- Q.52) Assertion (A): In the short run, a producer operates in only II stage of Law of Diminishing Returns Where average product of variable factor is declining.  
Reason (R): In stage I and stage III the marginal product of the fixed and the variable factors respectively are negative.
- (a) (A) is true and (R) is false
  - (b) Both (A) and (R) are true & (R) is the correct explanation of (A)
  - (c) Both (A) and (R) are true & (R) is not the correct explanation of (A)
  - (d) (A) is false and (R) is true
- Q.53) In the context of oligopoly, the kinked demand hypothesis is designed to explain
- (a) Price and output determination
  - (b) Price rigidity
  - (c) Price leadership
  - (d) Collusion among rivals.

- Q.54) According to Keynes, consumption expenditure is determined by
- (a) the level of interest rates
  - (b) extent of government taxes and subsidies
  - (c) disposable income
  - (d) autonomous investment expenditure
- Q.55) Fiscal deficit refers to
- (a) the excess of government's revenue expenditure over revenue receipts
  - (b) The excess of total expenditure over total receipts excluding borrowings
  - (c) Primary deficit - interest payments
  - (d) None of these
- Q.56) Banks in the country are required to maintain deposits with the central bank
- (a) to provide the necessary reserves for the functioning of the central bank
  - (b) to meet the demand for money by the banking system
  - (c) to meet the central bank prescribed reserve requirements and to meet settlement obligations.
  - (d) to meet the money needs for the day to day working of the commercial banks
- Q.57) The World Trade Organization (WTO)
- (a) has now been replaced by the GATT
  - (b) has an inbuilt mechanism to settle disputes among members
  - (c) was established to ensure free and fair trade internationally.
  - (d) (b) and c) above
- Q.58) Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
  - (b) Exports
  - (c) Imports & exports
  - (d) None of the above
- Q.59) The economist's concept of demand is \_\_\_\_\_ as desire or need or choice or preference or order.
- (a) the same thing
  - (b) not the same thing
  - (c) (a) or (b)
  - (d) None of these
- Q.60) The concept of diminishing marginal returns implies that:
- (a) output cannot decrease as long as labour is substituted for capital
  - (b) output decreases if either labour or capital is decreased
  - (c) output increases but at a decreasing rate as the amount of labour is increased and the amount of capital remains fixed
  - (d) if the capital stock is kept constant, output cannot increase even if more labour is available

Q.61) If firms in toothpaste industry have the following market shares, which market structure would be best describe the industry

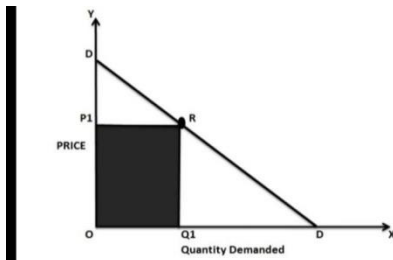
Market share	(% of market)
Toothpaste	18.7
Dentipaste	14.3
Shinibright	11.6
I can't believe its not toothpaste	9.4
Brighter than white	8.8
Pastystuff	7.4
Others	29.8

- (a) Perfect competition.  
 (b) Monopolistic competition.  
 (c) Oligopoly.  
 (d) Monopoly
- Q.62) 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
- Q.63) Government borrowings from foreign governments and institutions  
 (a) Capital receipt  
 (b) Revenue receipt  
 (c) Accounts for fiscal deficit  
 (d) Any of the above depending on the purpose of borrowing
- Q.64) Which of the following is the function of monetary policy?  
 (a) regulate the exchange rate and keep it stable  
 (b) regulate the movement of credit to the corporate sector  
 (c) regulate the level of production and prices  
 (d) regulate the availability, cost and use of money and credit
- Q.65) Based on the supply and demand model of determination of exchange rate, which of the following ought to cause the domestic currency of Country X to appreciate against dollar?  
 (a) The US decides not to import from Country X  
 (b) An increase in remittances from the employees who are employed abroad to their families in the home country  
 (c) Increased imports by consumers of Country X  
 (d) Repayment of foreign debts by Country X
- Q.66) Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?  
 (a) consumption and government purchases went up since you bought a used car and government bonds  
 (b) consumption and investment went up since you bought a used car and government bonds



- (c) investment and government purchases went up since you built a new house and bought government bonds
- (d) investment went up since you built a new house
- Q.67) Which of the following groups of goods have inelastic demand?
- (a) Salt, Smart Phone and Branded Lipstick
- (b) School Uniform, Branded Goggles and Smart Phone
- (c) Salt, School Uniform and Medicine
- (d) Medicine, Branded Sports Shoes, and Diamond ring
- Q.68) The producer is in equilibrium at a point where the cost line is:
- (a) above the isoquant
- (b) below the isoquant
- (c) cutting the isoquant
- (d) tangent to isoquant
- Q.69) A market structure in which many firms sell products that are similar but not identical is known as
- (a) monopolistic competition
- (b) monopoly
- (c) perfect competition
- (d) oligopoly
- Q.70) The marginal propensity to consume (MPC) can be defined as
- (a) a change in spending due to a change in income
- (b) a change in income that is saved after consumption
- (c) part of income that is spent on consumption.
- (d) part of income that is not saved.
- Q.71) During recession the fiscal policy of the government should be directed towards
- (a) Increasing the taxes and reducing the aggregate demand
- (b) Decreasing taxes to ensure higher disposable income
- (c) Increasing government expenditure and increasing taxes
- (d) None of the above
- Q.72) A contractionary monetary policy-induced increase in interest rates
- (a) increases the cost of capital and the real cost of borrowing for firms
- (b) increases the cost of capital and the real cost of borrowing for firms and households
- (c) decreases the cost of capital and the real cost of borrowing for firms
- (d) has no interest rate effect on firms and households
- Q.73) 'The nominal exchange rate is expressed in units of one currency per unit of the other currency. A real exchange rate adjusts this for changes in price levels'. The statements are
- (a) wholly correct
- (b) partially correct
- (c) wholly incorrect
- (d) None of the above

- Q.74) Which of the following are the features of a mixed economy?
- Planned economy
  - Dual system of pricing exists
  - Balance regional development
  - All of the above
- Q.75) A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has \_\_\_\_.
- more of one of the goods
  - less of at least one of the goods
  - more of at least one of the goods and less of the other good.
  - more of at least one of the goods and no less of the other good.
- Q.76) Demand for complementary goods are:
- Derived Demand
  - Autonomous demand
  - Aggregate Demand
  - None of these
- Q.77) Which of the following statements is true of the relationship among the average cost functions?
- $ATC = AFC + AVC$
  - $AVC = AFC + ATC$
  - $AFC = ATC + AVC$
  - $AFC = ATC - AVC$
- Q.78) Opportunity cost is \_\_\_\_.
- A cost that cannot be avoided.
  - The cost incurred in the past before we make a decision about what to do in the future.
  - That which we forgo or give up when we make a choice or a decision.
  - The additional benefit of buying an additional unit of a product
- Q.79) In the below figure, if DD is the demand curve and R is a given point on it then the area of shaded portion OP1RQ1 is \_\_\_\_.



- Total Revenue (TR)
- Marginal Revenue (MR)
- Total Cost (TC)
- None of these

- Q.80) Which of the following is NOT a conclusion about market allocations of commodities causing pollution externalities?
- (a) The prices of products responsible for pollution are too high.
  - (b) The output of the commodity is too large.
  - (c) Recycling and reuse of the polluting substances are discouraged since release into the environment is so inefficiently cheap.
  - (d) Too much pollution is produced.
- Q.81) Monopolistic competition constitutes:
- (a) Single firm producing close substitutes
  - (b) Many firms producing close substitutes
  - (c) Many firms producing differentiated substitutes
  - (d) Few firms producing differentiated substitutes
- Q.82) Which of the following is considered as a disadvantage of allocating resources using the market system?
- (a) Income will tend to be unevenly distributed.
  - (b) People do not get goods of their choice.
  - (c) Men of Initiative and enterprise are not rewarded.
  - (d) Profits will tend to be low.
- Q.83) A monopolist is able to maximize his profits when:
- (a) his output is maximum
  - (b) he charges a high price
  - (c) his average cost is minimum
  - (d) his marginal cost is equal to marginal revenue
- Q.84) Indifference Curve analysis is superior to utility analysis:
- (a) It dispenses with the assumption of measurability
  - (b) It segregates income effect and substitution effect
  - (c) It does not assume constancy of marginal utility of money
  - (d) All of the above
- Q.85) Price discrimination will be profitable only if the elasticity of demand in different markets in which the total market has been divided is:
- (a) uniform
  - (b) different
  - (c) less
  - (d) zero
- Q.86) If a country's Gross Domestic Product (GDP) is greater than its Gross National Product (GNP), it implies that the country:
- (a) Is a net exporter.
  - (b) Is a net importer.
  - (c) Has a trade surplus
  - (d) Has a trade deficit

- Q.87) Inflation occurs whenever:
- (a) aggregate demand rises.
  - (b) the price of any given commodity rises.
  - (c) the average price of most goods and services rises.
  - (d) the tax rate is lower than the government spending rate.
- Q.88) Which of the following is an example of an automatic stabilizer in the budget?
- (a) Discretionary spending
  - (b) Progressive taxation
  - (c) Infrastructure investment
  - (d) Unemployment benefits
- Q.89) What is the "liquidity trap" in Keynesian theory?
- (a) A situation where interest rates are very high.
  - (b) A situation where interest rates are very low, and savings are hoarded.
  - (c) A situation of hyperinflation
  - (d) A situation of excessive government spending
- Q.90) The concept of "animal spirits" in Keynesian theory refers to:
- (a) The unpredictable behavior of financial markets
  - (b) Psychological factors influencing economic decisions
  - (c) Government regulations affecting business confidence
  - (d) The impact of interest rates on investment
- Q.91) Which of the following is a limitation of using GDP as a measure of economic well-being?
- (a) It includes only monetary transactions.
  - (b) It does not account for income distribution.
  - (c) It considers both market and non-market activities.
  - (d) It is not affected by inflation.
- Q.92) Concept of Business Economics was given by:
- (a) Joel Dean
  - (b) Alfred Marshall
  - (c) Adam Smith
  - (d) L. Robbins
- Q.93) Which of the following policies is likely to shift an economy's aggregate demand curve to the right?
- (a) Increase in government spending
  - (b) Decrease in taxes
  - (c) A tax cut along with increase in public expenditure
  - (d) All the above
- Q.94) The government makes the provision of which goods those cannot be provided through the market:
- (a) private and public goods
  - (b) public and merit goods
  - (c) public and necessary goods
  - (d) Giffen and merit goods

- Q.95) By way of an optimal choice, a consumer tends to:
- (a) save money
  - (b) purchase large quantity
  - (c) maximize satisfaction
  - (d) maximize satisfaction subject to constraints like tastes and preferences.
- Q.96) If the central bank conducts an open market purchase of government securities, what is the likely impact on the money supply?
- (a) Increase
  - (b) Decrease
  - (c) No change
  - (d) Variable, depending on other factors.
- Q.97) Which of the following types of FDI includes creation of fresh assets and production facilities in the host country?
- (a) Brownfield investment
  - (b) Merger and acquisition
  - (c) Greenfield investment
  - (d) Strategic alliances
- Q.98) Which of the following statement is false in respect of FPI?
- (a) portfolio capital in general, moves to investment in financial stocks, bonds and other financial instruments
  - (b) is effected largely by individuals and institutions through the mechanism of capital market
  - (c) is difficult to recover as it involves purely long-term investments and the investors have controlling interest
  - (d) investors also do not have any intention of exercising voting power or controlling or managing the affairs of the company.
- Q.99) Which of the following is not an example of a policy designed to encourage competition?
- (a) Deregulation
  - (b) Trade liberalisation
  - (c) Reducing income tax
  - (d) Anti-monopoly regulations
- Q.100) The strategy of agricultural development in India before green revolution was -
- (a) High yielding varieties of seeds and chemical fertilizers to boost productivity
  - (b) Institutional reforms such as land reforms
  - (c) Technological up gradation of agriculture
  - (d) All the above

## ANSWERS

<b>No.1</b>	c	<b>No.21</b>	b	<b>No.41</b>	c	<b>No.61</b>	c	<b>No.81</b>	c
<b>No.2</b>	b	<b>No.22</b>	b	<b>No.42</b>	d	<b>No.62</b>	c	<b>No.82</b>	a
<b>No.3</b>	a	<b>No.23</b>	d	<b>No.43</b>	d	<b>No.63</b>	a	<b>No.83</b>	d
<b>No.4</b>	c	<b>No.24</b>	b	<b>No.44</b>	a	<b>No.64</b>	d	<b>No.84</b>	d
<b>No.5</b>	b	<b>No.25</b>	a	<b>No.45</b>	a	<b>No.65</b>	b	<b>No.85</b>	b
<b>No.6</b>	b	<b>No.26</b>	a	<b>No.46</b>	a	<b>No.66</b>	d	<b>No.86</b>	d
<b>No.7</b>	b	<b>No.27</b>	b	<b>No.47</b>	a	<b>No.67</b>	c	<b>No.87</b>	c
<b>No.8</b>	c	<b>No.28</b>	c	<b>No.48</b>	b	<b>No.68</b>	d	<b>No.88</b>	d
<b>No.9</b>	b	<b>No.29</b>	b	<b>No.49</b>	d	<b>No.69</b>	a	<b>No.89</b>	b
<b>No.10</b>	c	<b>No.30</b>	b	<b>No.50</b>	b	<b>No.70</b>	a	<b>No.90</b>	b
<b>No.11</b>	d	<b>No.31</b>	b	<b>No.51</b>	c	<b>No.71</b>	b	<b>No.91</b>	c
<b>No.12</b>	b	<b>No.32</b>	c	<b>No.52</b>	b	<b>No.72</b>	b	<b>No.92</b>	a
<b>No.13</b>	b	<b>No.33</b>	b	<b>No.53</b>	b	<b>No.73</b>	a	<b>No.93</b>	d
<b>No.14</b>	a	<b>No.34</b>	c	<b>No.54</b>	c	<b>No.74</b>	d	<b>No.94</b>	b
<b>No.15</b>	b	<b>No.35</b>	d	<b>No.55</b>	d	<b>No.75</b>	d	<b>No.95</b>	d
<b>No.16</b>	b	<b>No.36</b>	a	<b>No.56</b>	c	<b>No.76</b>	a	<b>No.96</b>	a
<b>No.17</b>	d	<b>No.37</b>	c	<b>No.57</b>	d	<b>No.77</b>	d	<b>No.97</b>	c
<b>No.18</b>	d	<b>No.38</b>	d	<b>No.58</b>	c	<b>No.78</b>	c	<b>No.98</b>	c
<b>No.19</b>	c	<b>No.39</b>	d	<b>No.59</b>	b	<b>No.79</b>	a	<b>No.99</b>	c
<b>No.20</b>	c	<b>No.40</b>	b	<b>No.60</b>	c	<b>No.80</b>	a	<b>No.100</b>	b

**TEST 3**

Max Marks 100

**Questions**

- Q.1) Adam Smith Published his book "An enquiry into the nature and causes of wealth of nations" in year
- a) 1776
  - b) 1786
  - c) 1789
  - d) 1790
- Q.2) Which of the following will affect the demand for non-durable goods?
- a) Disposable income
  - b) Price
  - c) Demography
  - d) All of the above
- Q.3) With which of the following is the concept of marginal cost closely related?
- (a) Variable cost.
  - (b) Fixed cost.
  - (c) Opportunity cost.
  - (d) Economic cost.
- Q.4) Suppose a firm is producing a level of output such that  $MR > MC$ , what should be firm do to maximize its profits?
- (a) The firm should do nothing.
  - (b) The firm should hire less labour.
  - (c) The firm should increase price.
  - (d) The firm should increase output.
- Q.5) The trough of a business cycle occurs when \_\_\_\_ hits its lowest point.
- (a) inflation in the economy
  - (b) the money supply
  - (c) aggregate economic activity
  - (d) the unemployment rate
- Q.6) The GDP per capita is
- (a) a measure of a country's economic output per person
  - (b) actual current income receipts of persons
  - (c) national income divided by population
  - (d) (a) and (c) above
- Q.7) 'Who gave 'The Theory of Public Finance (1959)?
- (a) Adam Smith
  - (b) Richard Musgrave
  - (c) A.C. Pigou
  - (d) Alfred Marshall

- Q.8) Contractionary fiscal policy can involve:
- (a) Increasing consumption and investment and taxes.
  - (b) Decreasing government spending and increasing taxes.
  - (c) Increasing government spending and increasing taxes.
  - (d) None of the above.
- Q.9) Quantitative restrictions refer to limits set by countries to curb:
- (a) Imports
  - (b) Exports
  - (c) Imports & exports
  - (d) None of the above
- Q.10) The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -
- (a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few
  - (b) to provide for the control of monopolies
  - (c) to prohibit monopolistic and restrictive trade practice
  - (d) all the above
- Q.11) Economics is the study of \_\_\_\_\_
- a) How society manages its unlimited resources
  - b) How to reduce our wants
  - c) How society manages its scarce resources
  - d) How to fully satisfy our wants
- Q.12) \_\_\_\_\_ is/are the types of Related Commodities.
- a) Complementary
  - b) Substitutes
  - c) Complementary and Substitutes
  - d) Complementary Substitutes
- Q.13) Which of the following is true of the relationship between the marginal cost function and the average cost function?
- (a) If MC is greater than ATC, then ATC is falling.
  - (b) The ATC curve intersects the MC curve at minimum MC.
  - (c) The MC curve intersects the ATC curve at minimum ATC.
  - (d) If MC is less than ATC, then ATC is increasing.
- Q.14) Which of the following is not an essential condition of pure competition?
- (a) Large number of buyers and sellers
  - (b) Homogeneous product
  - (c) Freedom of entry
  - (d) Absence of transport cost
- Q.15) The most probable outcome of an increase in the money supply is
- (a) interest rates to rise, investment spending to rise, and aggregate demand to rise
  - (b) interest rates to rise, investment spending to fall, and aggregate demand to fall
  - (c) interest rates to fall, investment spending to rise, and aggregate demand to rise
  - (d) interest rates to fall, investment spending to fall, and aggregate demand to fall



- Q.16) The basis of distinction between market price and factor cost is
- (a) net factor income from abroad
  - (b) net indirect taxes (i.e., Indirect taxes - Subsidies)
  - (c) net indirect taxes (i.e., Indirect taxes + Subsidies)
  - (d) depreciation ( consumption of fixed capital)
- Q.17) Which of the following is an example of market failure?
- (a) Externalities
  - (b) Low prices
  - (c) Excess supply
  - (d) Excludable and rival goods
- Q.18) Which of the following policy measures is typically used by central banks to manage the business cycle?
- (a) Fiscal policy.
  - (b) Monetary policy.
  - (c) Trade policy.
  - (d) Industrial policy
- Q.19) Theory of Mercantilism propagates:
- (a) Encourage exports and imports
  - (b) Encourage exports and discourage imports
  - (c) Discourage exports and imports
  - (d) Discourage exports and encourage imports
- Q.20) In terms of Ease of Doing Business in 2020 India ranks
- (a) 63
  - (b) 77
  - (c) 45
  - (d) None of the above
- Q.21) Human Wants in response to satisfy there wants are \_\_\_\_
- a) Unlimited
  - b) Limited
  - c) Scarce
  - d) Multiple
- Q.22) There is a\_\_\_\_\_relation between the demand for a product and the price of its substitutes.
- a) Direct
  - b) Positive
  - c) Indirect
  - d) Both (1) & (2)
- Q.23) The negatively-sloped (i.e. falling) part of the long-run average total cost curve is due to which of the following?
- (a) Diseconomies of scale.
  - (b) Diminishing returns.
  - (c) The difficulties encountered in coordinating the many activities of a large firm.
  - (d) The increase in productivity that results from specialization.

- Q.24) Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be:
- (a) an increase in equilibrium price and quantity.
  - (b) a decrease in equilibrium price and quantity.
  - (c) an increase in equilibrium quantity and uncertain effect on equilibrium price.
  - (d) a decrease in equilibrium price and increase in equilibrium quantity.
- Q.25) According to \_\_\_\_\_ trade cycles occur due to onset of innovations.
- (a) Hawtrey
  - (b) Adam Smith
  - (c) J M Keynes
  - (d) Schumpeter
- Q.26) Read the following statements
- I. 'Value added' refers to the difference between value of output and purchase of intermediate goods.
  - II. 'Value added' represents the contribution of labour and capital to the production process.
- (a) Statements I and II are incorrect
  - (b) Statements I and II are correct
  - (c) Statement I is correct and II is incorrect
  - (d) Statement II is correct and I is incorrect
- Q.27) Which of the following is not an example of a policy designed to encourage competition?
- (a) Deregulation
  - (b) Trade liberalisation
  - (c) Reducing income tax
  - (d) Anti-monopoly regulations
- Q.28) Which of the following is NOT a central issue in macroeconomics?
- (a) How should the central bank of a country fight inflation?
  - (b) What is responsible for high and persistent unemployment?
  - (c) How do tax changes influence consumers' buying choices?
  - (d) What factors determine economic growth?
- Q.29) Which of the following is more sensitive to short-term changes in economic conditions?
- (a) FDI
  - (b) FPI
  - (c) Both FDI and FPI
  - (d) Neither FDI nor FPI
- Q.30) Merchandise Exports from India Scheme was replaced by -
- (a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021
  - (b) National Logistics Policy (NLP) in 2020
  - (c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019
  - (d) None of the above

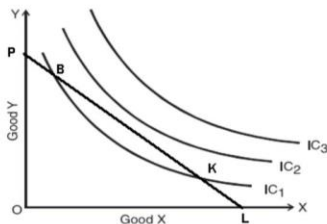
- Q.31) \_\_\_\_ refers to the process of selecting and appropriate alternative that will provide the most efficient mean of attaining a desired end, from two or more alternative courses of action
- a) Decision making
  - b) Strategy
  - c) Problem solving
  - d) Effectiveness
- Q.32) At higher prices people demand more of certain goods not lor their worth but for their prestige value - This is called\_\_\_\_\_.
- a) Veblen effect
  - b) Giffen paradox
  - c) Speculative effect
  - d) None of the above
- Q.33) When marginal costs are below average total costs,
- (a) average fixed costs are rising.
  - (b) average total costs are falling.
  - (c) average total costs are rising.
  - (d) average total costs are minimized.
- Q.34) Monopoly may arise in a product market because
- (a) A significantly important resource for the production of the commodity is owned by a single firm.
  - (b) The government has given the firm patent right to produce the commodity.
  - (c) The costs of production and economies of scale makes production by a single producer more efficient.
  - (d) All the above.
- Q.35) What are the Internal causes of Business Cycle?
- (a) Fluctuations in effective demand.
  - (b) Macroeconomic Policies
  - (c) Money Supply
  - (d) All the above
- Q.36) Keynes believed that an economy may attain equilibrium level of output
- (a) only at the full-employment level of output
  - (b) below the full-employment level of output
  - (c) only if prices were inflexible
  - (d) a) and c) above
- Q.37) Which of the following policies of the government fulfils the redistribution function
- (a) Parking the army on the northern borders of the country
  - (b) Supply of food grains at subsidized prices to the poor people
  - (c) Controlling the supply of money through monetary policy
  - (d) All of the above

- Q.38) When rent control is imposed above the current market price it will:
- (a) increase the quantity of rental housing demanded.
  - (b) reduce the quality of rental housing.
  - (c) create a shortage of rental housing.
  - (d) create no impact on the market.
- Q.39) According to the theory of comparative advantage
- (a) trade is a zero-sum game so that the net change in wealth or benefits among the participants is zero.
  - (b) trade is not a zero-sum game so that the net change in wealth or benefits among the participants is positive
  - (c) nothing definite can be said about the gains from trade
  - (d) gains from trade depends upon factor endowment and utilization
- Q.40) Which one of the following is a feature of green revolution -
- (a) use of soil friendly green manure to preserve fertility of soil
  - (b) grow more crops by redistributing land to landless people
  - (c) High yielding varieties of seeds and scientific cultivation
  - (d) Diversification to horticulture
- Q.41) Concept Of Business Economics was given by\_\_\_\_
- a) Joel Dean
  - b) Alfred Marshall
  - c) Adam Smith
  - d) L.Robbins
- Q.42) A Symbolic statement of a relationship between the dependent and the independent variables is called as\_\_\_\_\_.
- a) Function
  - b) Sets
  - c) Equation
  - d) Variable
- Q.43) The most important function of an entrepreneur is to \_\_\_\_\_.
- (a) Innovate
  - (b) Bear the sense of responsibility
  - (c) Finance
  - (d) Earn profit
- Q.44) Which of the following is the distinguishing characteristic of oligopolies?
- (a) A standardized product
  - (b) The goal of profit maximization
  - (c) The interdependence among firms
  - (d) Downward-sloping demand curves faced by firms.

- Q.45) Collectively peaks and troughs together is known as:  
(a) Turning Points  
(b) Contraction  
(c) Expansion  
(d) A trough
- Q.46) Under equation  $C = a + by$ ,  $b = 0.8$ , what is the value of 2 sector expenditure multiplier?  
(a) 4  
(b) 2  
(c) 5  
(d) 1
- Q.47) When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?  
(a) It is trying to establish stability in an economy  
(b) It is trying to redistribute income and wealth  
(c) It is trying to allocate resources to their most efficient use  
(d) It is creating a source of market failure
- Q.48) Primary deficit is obtained by deducting interest payments from the:  
(a) Fiscal deficit  
(b) Revenue deficit  
(c) Budgetary deficit  
(d) Monetized deficit
- Q.49) Which of the following theories advocates that countries should produce those goods for which it has the greatest relative advantage?  
(a) Modern theory of international trade  
(b) The factor endowment theory  
(c) The Heckscher-Ohlin Theory  
(d) None of the above
- Q.50) Niti Aayog will work towards the objective:  
(a) To evolve a shared vision of national development priorities, sectors and strategies with active involvement of states  
(b) To foster cooperative federalism  
(c) To develop mechanisms to formulate credible plans at the village level  
(d) All the above
- Q.51) Who has given the law of Demand?  
a) Alfred Marshall  
b) Paul Samuelson  
c) Robbins  
d) J.B. Say

- Q.52) The falling part of long run average cost curve is tangent to the \_\_\_\_\_ of corresponding short run average cost curve(s).
- (a) falling part
  - (b) rising part
  - (c) minimum point
  - (d) None of the above
- Q.53) A firm encounters its “shutdown point” when:
- (a) average total cost equals price at the profit-maximising level of output.
  - (b) average variable cost equals price at the profit-maximising level of output.
  - (c) average fixed cost equals price at the profit-maximising level of output.
  - (d) marginal cost equals price at the profit-maximising level of output.
- Q.54) If the consumption function is  $C = 20 + 0.5Y_d$ , then an increase in disposable income by ₹ 100 will result in an increase in consumer expenditure by \_\_\_\_\_
- (a) 25
  - (b) 70
  - (c) 50
  - (d) 100
- Q.55) GST compensation is given to
- (a) to the industries which have made losses due to the introduction of GST
  - (b) to compensate for the lower rates of GST on essential items
  - (c) to the states to compensate for the loss of revenue due to the introduction of GST
  - (d) to compensate for the loss of input tax credit in manufacturing
- Q.56) Choose the incorrect statement
- (a) Anything that would act as a medium of exchange is money
  - (b) Money has generalized purchasing power and is generally acceptable in settlement of all transactions
  - (c) Money is a totally liquid asset and provides us with means to access goods and services
  - (d) Currency which represents money does not necessarily have intrinsic value.
- Q.57) A specific tariff is
- (a) a tax on a set of specified imported good
  - (b) an import tax that is common to all goods imported during a given period
  - (c) a specified fraction of the economic value of an imported good
  - (d) a tax on imports defined as an amount of currency per unit of the good
- Q.58) What is meant by the “institutional framework” of an economy?
- (a) The maximum capacity of the economy in the production process
  - (b) The level of investment in human capital
  - (c) The system of formal laws, regulations and procedures that shape economic activity in the economy
  - (d) Subsidies and tax concessions used to improve employment opportunities in assisted areas of the economy

- Q.59) The successive units of stamps collected by a little boy give him greater and greater satisfaction. This is a clear case of
- Operation of the law of demand.
  - Consumer surplus enjoyed in hobbies and rare collections
  - Exception to the law of diminishing utility.
  - None of the above
- Q.60) A vertical supply curve parallel to Y axis implies that the elasticity of supply is:
- Zero
  - Infinity
  - Equal to one
  - Greater than zero but less than infinity.
- Q.61) The luxury goods like jewellery and fancy articles will have
- low income elasticity of demand
  - high income elasticity of demand
  - zero income elasticity of demand
  - none of the above
- Q.62) If this consumer is spending her entire income and consuming at point B, what advise will you give her?



- No advise needed, as she is maximizing her utility at B
  - Consume more of Good X and less of Good Y
  - Consume more of X and less of Y and reach point K
  - Consume same quantity of Good Y and more of Good X
- Q.63) Which of the following is a FALSE statement?
- The very long run focuses on the growth of productive capacity
  - In the very long run, the productive capacity is assumed to be given
  - In the very short run, shifts in aggregate demand determine how much output is produced
  - Fluctuations in the rates of inflation and unemployment are important long-run issues
- Q.64) The producer is in equilibrium at a point where the cost line is:
- above the isoquant
  - below the isoquant
  - cutting the isoquant
  - tangent to isoquant

- Q.65) Which of the following statements is true of the relationship among the average cost functions?
- (a)  $ATC = AFC = AVC$
  - (b)  $AVC = AFC + ATC$
  - (c)  $AFC = ATC + AVC$
  - (d)  $AFC = ATC - AVC$
- Q.66) Which of the following is not a determinant of the firm's cost function?
- (a) Taxes
  - (b) The Production Function
  - (c) The Price of the firm's output
  - (d) Subsidies
- Q.67) When \_\_\_\_\_, we know that the firms are earning just normal profits.
- (a)  $AC = AR$
  - (b)  $MC = MR$
  - (c)  $MC = AC$
  - (d)  $AR = MR$
- Q.68) Total revenue =
- (a) price  $\times$  quantity
  - (b) price  $\times$  income
  - (c) income  $\times$  quantity
  - (d) none of the above
- Q.69) Under monopoly, the degree of control over price is:
- (a) none
  - (b) some
  - (c) very considerable
  - (d) none of the above
- Q.70) Monopolistic competition constitutes:
- (a) Single firm producing close substitutes
  - (b) Many firms producing close substitutes
  - (c) Many firms producing differentiated substitutes
  - (d) Few firms producing differentiated substitutes
- Q.71) Agricultural goods markets depict characteristics close to:
- (a) Perfect competition
  - (b) Oligopoly
  - (c) Monopoly
  - (d) Monopolistic competition
- Q.72) For a Price taking firm:
- (a) Marginal revenue is less than Price
  - (b) Marginal revenue is equal to Price
  - (c) The relationship between behavior marginal revenue and Price is indeterminate
  - (d) Marginal revenue is greater than price



- Q.73) Price Rigidity explained by Sweezy's model is related to which market form:
- (a) Monopoly
  - (b) Oligopoly
  - (c) Monopolistic competition
  - (d) Perfect Competition
- Q.74) Consumers get maximum variety of goods under:
- (a) Perfect Competition
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) None of these
- Q.75) Which of the following statement(s) is/are true about the slope of budget line?
- (a) The slope of budget line is determined by the relative prices of two goods.
  - (b) The slope of budget line is equal to price ratio of two goods.
  - (c) The slope of budget line measures the rate at which the consumer can trade one good for the other.
  - (d) All of the above
- Q.76) If the consumption function is expressed as  $C = a + bY$  then  $a$  represents
- (a) autonomous consumer expenditure.
  - (b) the marginal propensity to consume.
  - (c) the consumption income relationship
  - (d) Non- linear consumption function
- Q.77) What is the purpose of a voluntary export restraint (VER)?
- (a) To limit the quantity of exports.
  - (b) To encourage foreign producers to export more
  - (c) To reduce the cost of imports.
  - (d) To comply with international trade agreements.
- Q.78) Countries with higher saving rates may have higher equilibrium growth rates since:
- (a) people who save more also are more industrious
  - (b) higher income allows for more savings
  - (c) a higher saving rate allows for more investment in human capital which ultimately enhances economic growth
  - (d) having more capital equipment is more important than having better capital equipment
- Q.79) The quantity of dollars supplied will decrease if:
- (a) imports into the United States increase.
  - (b) the expected future exchange rate falls.
  - (c) the interest rate in the United States falls.
  - (d) fewer U.S. residents travel abroad.
- Q.80) The expenditure multiplier is used to calculate the change in:
- (a) spending caused by a change in income
  - (b) equilibrium income caused by a change in autonomous spending

- (c) intended spending caused by a change in consumption  
(d) disposable income caused by a change in saving
- Q.81) Which component of National Income represents the income earned by individuals and businesses before taxes and other deductions?
- (a) Personal Income  
(b) Disposable Income  
(c) Gross National Product (GNP)  
(d) Gross Domestic Product (GDP)
- Q.82) What is the "liquidity trap" in Keynesian theory?
- (a) A situation where interest rates are very high.  
(b) A situation where interest rates are very low, and savings are hoarded.  
(c) A situation of hyperinflation  
(d) A situation of excessive government spending
- Q.83) The concept of the "multiplier effect" in Keynesian economics refers to:
- (a) The impact of interest rates on investment  
(b) The magnification of an initial change in spending throughout the economy  
(c) The impact of taxes on consumer spending  
(d) The role of exports in economic growth
- Q.84) Which of the following is included in M2, a broader measure of money supply compared to M1?
- (a) Currency in circulation  
(b) Savings deposits  
(c) Demand deposits  
(d) Travellers' checks
- Q.85) 'Market failure' is a situation which occurs when
- (a) private goods are not sufficiently provided by the market  
(b) public goods are not sufficiently provided by public sector  
(c) The market fail to form or they allocate resources efficiently  
(d) (b) and (c) above
- Q.86) If an individual tends to drive his car in a dangerously high speed because he has a comprehensive insurance cover, it is a case of
- (a) free riding  
(b) moral hazard  
(c) poor upbringing  
(d) Inefficiency
- Q.87) Smoking in public is a case of
- (a) Negative consumption externality  
(b) Negative production externality  
(c) Internalising externality  
(d) None of the above

- Q.88) Non-debt capital receipts
- (a) do not add to the assets of the government and therefore not treated as capital receipts
  - (b) are those that do not create any future repayment burden for the government
  - (c) are those that create future liabilities for the government
  - (d) facilitate capital investments at low cost
- Q.89) Real money is
- (a) nominal money adjusted to the price level
  - (b) real national income
  - (c) money demanded at given rate of interest
  - (d) nominal GNP divided by price level
- Q.90) Reserve Money is composed of
- (a) currency in circulation + demand deposits of banks (Current and Saving accounts) + Other deposits with the RBI.
  - (b) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI.
  - (c) currency in circulation + demand deposits of banks + Other deposits with the RBI.
  - (d) currency in circulation + demand and time deposits of banks + Other deposits with the RBI.
- Q.91) Under the fractional reserve system
- (a) the money supply is an increasing function of reserve money (or high powered money) and the money multiplier.
  - (b) the money supply is an decreasing function of reserve money (or high powered money) and the money multiplier.
  - (c) the money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier.
  - (d) none of the above as the determinants of money supply are different
- Q.92) \_\_\_\_\_ tells us how much new money will be created by the banking system for a given increase in the high-powered money.
- (a) The currency ratio
  - (b) The excess reserve ratio (e)
  - (c) The credit multiplier
  - (d) The currency ratio (c)
- Q.93) Anti-dumping duties are
- (a) additional import duties so as to offset the effects of exporting firm's unfair charging of prices in the foreign market which are lower than production costs.
  - (b) additional import duties so as to offset the effects of exporting firm's increased competitiveness due to subsidies by government
  - (c) additional import duties so as to offset the effects of exporting firm's unfair charging of lower prices in the foreign market
  - (d) Both (a) and (c) above

- Q.94) A foreign direct investor
- (a) May enter India only through automatic route
  - (b) May enter India only through government route
  - (c) May enter India only through equity in domestic enterprises
  - (d) Any of the above
- Q.95) Which is the leading country in respect of inflow of FDI to India?
- (a) Mauritius
  - (b) USA
  - (c) Japan
  - (d) USA
- Q.96) An argument in favour of direct foreign investment is that it tends to
- (a) promote rural development
  - (b) increase access to modern technology
  - (c) protect domestic industries
  - (d) keep inflation under control
- Q.97) Money Supply is directly proportional to:
- (a) Cash reserve ratio (r)
  - (b) Monetary base (H)
  - (c) currency deposit ratio (k)
  - (d) Money Multiplier (m)
- Q.98) The Reverse repo rate is:
- (a) RBI borrows from the government.
  - (b) Commercial banks lends money to RBI
  - (c) Commercial banks rediscount the bills of exchange with RBI
  - (d) None of these
- Q.99) Envelope curve is also called:
- (a) Long Run Average Cost curve
  - (b) Short Run Average Cost curve
  - (c) Average Fixed Cost
  - (d) None of these
- Q.100) The context of the new economic policy of 1991, the term 'disinvestment' stands for -
- (a) A policy whereby government investments are reduced to correct fiscal deficit
  - (b) The policy of sale of portion of the government shareholding of a public sector enterprise
  - (c) The policy of public partnership in private enterprise
  - (d) A policy of opening up government monopoly to the privates sector

## ANSWERS

<b>No.1</b>	a	<b>No.21</b>	c	<b>No.41</b>	a	<b>No.61</b>	b	<b>No.81</b>	a
<b>No.2</b>	d	<b>No.22</b>	d	<b>No.42</b>	a	<b>No.62</b>	b	<b>No.82</b>	b
<b>No.3</b>	a	<b>No.23</b>	d	<b>No.43</b>	a	<b>No.63</b>	d	<b>No.83</b>	b
<b>No.4</b>	d	<b>No.24</b>	c	<b>No.44</b>	c	<b>No.64</b>	d	<b>No.84</b>	a
<b>No.5</b>	c	<b>No.25</b>	d	<b>No.45</b>	a	<b>No.65</b>	d	<b>No.85</b>	c
<b>No.6</b>	d	<b>No.26</b>	b	<b>No.46</b>	c	<b>No.66</b>	c	<b>No.86</b>	b
<b>No.7</b>	b	<b>No.27</b>	c	<b>No.47</b>	b	<b>No.67</b>	a	<b>No.87</b>	a
<b>No.8</b>	b	<b>No.28</b>	c	<b>No.48</b>	a	<b>No.68</b>	a	<b>No.88</b>	b
<b>No.9</b>	c	<b>No.29</b>	b	<b>No.49</b>	d	<b>No.69</b>	c	<b>No.89</b>	a
<b>No.10</b>	d	<b>No.30</b>	a	<b>No.50</b>	d	<b>No.70</b>	c	<b>No.90</b>	b
<b>No.11</b>	c	<b>No.31</b>	b	<b>No.51</b>	a	<b>No.71</b>	a	<b>No.91</b>	a
<b>No.12</b>	c	<b>No.32</b>	a	<b>No.52</b>	a	<b>No.72</b>	b	<b>No.92</b>	c
<b>No.13</b>	c	<b>No.33</b>	b	<b>No.53</b>	b	<b>No.73</b>	b	<b>No.93</b>	d
<b>No.14</b>	d	<b>No.34</b>	d	<b>No.54</b>	c	<b>No.74</b>	b	<b>No.94</b>	d
<b>No.15</b>	c	<b>No.35</b>	d	<b>No.55</b>	c	<b>No.75</b>	d	<b>No.95</b>	a
<b>No.16</b>	b	<b>No.36</b>	b	<b>No.56</b>	a	<b>No.76</b>	a	<b>No.96</b>	b
<b>No.17</b>	a	<b>No.37</b>	b	<b>No.57</b>	d	<b>No.77</b>	a	<b>No.97</b>	d
<b>No.18</b>	b	<b>No.38</b>	c	<b>No.58</b>	c	<b>No.78</b>	c	<b>No.98</b>	a
<b>No.19</b>	b	<b>No.39</b>	b	<b>No.59</b>	c	<b>No.79</b>	d	<b>No.99</b>	a
<b>No.20</b>	a	<b>No.40</b>	c	<b>No.60</b>	a	<b>No.80</b>	b	<b>No.100</b>	b

## TEST 4

Max Marks 100

## Questions

- Q.1) Macro economics include \_\_\_\_
- a) Product Pricing
  - b) Consumer behavior
  - c) External value of money
  - d) Location of industry
- Q.2) The \_\_\_\_ sloping Demand Curve is in accordance with the law of demand which describes an price demand relationship—\_
- a) Upward, inverse
  - b) Downward, Inverse.
  - c) Upward, direct
  - d) Download, direct
- Q.3) Production function:  $Q = 4L^{1/2}K^{2/3}$  exhibits:
- (a) increasing returns to scale
  - (b) decreasing returns to scale
  - (c) constant returns to scale
  - (d) increasing returns to a factor
- Q.4) Price discrimination will be profitable only if the elasticity of demand in different markets in which the total market has been divided is:
- (a) uniform
  - (b) different
  - (c) less
  - (d) zero
- Q.5) The concept of 'resident unit' involved in the definition of GDP denotes
- (a) A business enterprise which belongs to a citizen of India with production units solely situated in India
  - (b) The unit having predominant economic interest in the economic territory of the country for one year or more irrespective of the nationality or legal status
  - (c) A citizen household which had been living in India during the accounting year and one whose economic interests are solely in India
  - (d) Households and business enterprises composed of citizens of India alone living in India during the accounting year
- Q.6) Assume you built a new house, bought a used car, and bought some government bonds. Which of the following is true?
- (a) consumption and government purchases went up since you bought a used car and government bonds
  - (b) consumption and investment went up since you bought a used car and government bonds

- (c) investment and government purchases went up since you built a new house and bought government bonds
- (d) investment went up since you built a new house
- Q.7) Money performs all of the three functions mentioned below, namely
- (a) medium of exchange, price control, store of value
- (b) unit of account, store of value , provide yields
- (c) medium of exchange, unit of account, store of value
- (d) medium of exchange, unit of account, income distribution
- Q.8) The theory of absolute advantage states that
- (a) national wealth and power are best served by increasing exports and decreasing imports
- (b) nations can increase their economic well-being by specializing in the production of goods they produce more efficiently than anyone else.
- (c) that the value or price of a commodity depends exclusively on the amount of labour going into its production and therefore factor prices will be the same
- (d) differences in absolute advantage explains differences in factor endowments in different countries
- Q.9) In the context of the new economic policy of 1991, the term 'disinvestment' stands for -
- (a) A policy whereby government investments are reduced to correct fiscal deficit
- (b) The policy of sale of portion of the government shareholding of a public sector enterprise
- (c) The policy of public partnership in private enterprise
- (d) A policy of opening up government monopoly to the privates sector
- Q.10) Which of the following is a lagging economic indicator?
- (a) Consumer confidence index.
- (b) Stock market performance.
- (c) Unemployment rate.
- (d) New housing starts.
- Q.11) \_\_\_\_ examines how the individual units (consumers or firms) make decisions as to how to efficiently allocate there scarce resources
- a) Macro Economics
- b) Micro Economics
- c) Mathematical Economics
- d) Consumer Economics
- Q.12) \_\_\_\_ is a graphical presentation of the \_\_\_\_
- a) Demand Curve,Demand Schedule.
- b) Demand Schedule,Demand Curve
- c) Demand Curve, Supply Schedule
- d) Supply Curve, Demand Schedule

- Q.13) Under the law of variable proportion, stage I is known as the stage of increasing returns because:
- (a) Marginal product of the variable factor increases throughout this stage
  - (b) Average product of the variable factor increases throughout this stage
  - (c) Marginal product increases at increasing rate throughout this stage
  - (d) Total increases at increasing rate throughout this stage
- Q.14) Perfectly Competitive firm and industry are both in long run equilibrium when:
- (a)  $P = MR = SMC = LMC$
  - (b)  $P = MR =$  Lowest point on the LAC
  - (c)  $P = MR = SAC = LAC$
  - (d) All of the above
- Q.15) Gross Domestic Product (GDP) of any nation
- (a) excludes capital consumption and intermediate consumption
  - (b) is inclusive of capital consumption or depreciation
  - (c) is inclusive of indirect taxes but excludes subsidies
  - (d) None of the above
- Q.16) Countries with higher saving rates may have higher equilibrium growth rates since:
- (a) people who save more also are more industrious
  - (b) higher income allows for more savings
  - (c) a higher saving rate allows for more investment in human capital which ultimately enhances economic growth
  - (d) having more capital equipment is more important than having better capital equipment
- Q.17) The quantity theory of money holds that
- (a) changes in the general level of commodity prices are caused by changes in the quantity of money
  - (b) there is strong relationship between money and price level and the quantity of money is the main determinant of the price
  - (c) changes in the value of money or purchasing power of money are determined first and foremost by changes in the quantity of money in circulation
  - (d) All the above
- Q.18) Which of the following holds that a country can increase its wealth by encouraging exports and discouraging imports
- (a) Capitalism
  - (b) Socialism
  - (c) Mercantilism
  - (d) Laissez faire
- Q.19) The sequence of growth and structural change in Indian economy is characterized by
- (a) The historical pattern of prominence of sectors as agriculture, industry, services
  - (b) The historical pattern of prominence of sectors as industry, services, agriculture
  - (c) Unique experience of the sequence as agriculture, services, industry



- (d) All the above are correct
- Q.20) Economy's historical performance was reflected by:
- (a) Lagging indicating
  - (b) Leading indicating
  - (c) Either (a) or (b)
  - (d) None of these
- Q.21) Business economics is essentially a component of \_\_\_\_ as it includes application of selected quantitative techniques.
- a) Pure economics
  - b) Applied economics
  - c) Statistical economics
  - d) None of the above
- Q.22) Comforts lies between\_\_\_\_
- a) Inferior goods and necessities
  - b) Luxuries and inferior goods
  - c) Necessaries and luxuries,
  - d) None of the above
- Q.23) Given  $TC = 2000 + 15Q - 6Q^2 + Q^3$ . How much is TFC at  $Q = 2000$ ?
- (a) 2000
  - (b) 975
  - (c) 30,000
  - (d) Can't be determined
- Q.24) A monopolist is able to maximize his profits when:
- (a) his output is maximum
  - (b) he charges a high price
  - (c) his average cost is minimum
  - (d) his marginal cost is equal to marginal revenue
- Q.25) The basis of distinction between market price and factor cost is
- (a) net factor income from abroad
  - (b) net indirect taxes (i.e., Indirect taxes - Subsidies)
  - (c) net indirect taxes (i.e., Indirect taxes + Subsidies)
  - (d) depreciation ( consumption of fixed capital)
- Q.26) Contractionary fiscal policy can involve:
- (a) Increasing consumption and investment and taxes.
  - (b) Decreasing government spending and increasing taxes.
  - (c) Increasing government spending and increasing taxes.
  - (d) None of the above.
- Q.27) The precautionary money balances people want to hold
- (a) as income elastic and not very sensitive to rate of interest
  - (b) as income inelastic and very sensitive to rate of interest
  - (c) are determined primarily by the level of transactions they expect to make in the future.
  - (d) are determined primarily by the current level of transactions

- Q.28) Which of the following is an outcome of tariff?
- (a) create obstacles to trade and increase the volume of imports and exports
  - (b) domestic consumers enjoy consumer surplus because consumers must now pay only a lower price for the good
  - (c) discourage domestic consumers from consuming imported foreign goods and encourage consumption of domestically produced import substitutes
  - (d) increase government revenues of the importing country by more than value of the total tariff it charges
- Q.29) The Industrial Policy Resolution (1948) aimed at -
- (a) Market oriented economic reforms and opening up of economy
  - (b) A shift from state led industrialization to private sector led industrialisation
  - (c) an expanded role for the public sector and licensing to the private sector
  - (d) an expanded role of private sector a limited role of public sector
- Q.30) The different phases of a business cycle
- (a) do not have the same length and severity
  - (b) expansion phase always last more than ten years
  - (c) last many years and are difficult to get over in short periods
  - (d) none of the above
- Q.31) Administered prices refer to:
- (a) Prices determined by forces of demand and supply
  - (b) Prices determined by sellers in the market
  - (c) Prices determined by an external authority which is usually the government
  - (d) None of the above
- Q.32) The Law of Demand, assuming other things to remain constant, establishes the relationship between:
- a) Income of the consumer and the quantity of a good demanded by him
  - b) Price of a good and the quantity demanded
  - c) Price of a good and the demand for its substitute
  - d) Quantity demanded of a good and the relative prices of its complementary goods
- Q.33) In the very long-run AD-AS model, if the AD-curve shifts to the left, then:
- (a) prices and output will both decrease
  - (b) prices and output will both increase
  - (c) prices will decrease but output will remain the same
  - (d) output will decrease but prices will remain the same
- Q.34) 'Interdependence Between Firms' is a feature of which type of market form:
- (a) Oligopoly
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) Perfect Competition

- Q.35) If net factor income from abroad is positive, then
- (a) national income will be greater than domestic factor incomes.
  - (b) national income will be less than domestic factor incomes.
  - (c) net exports will be negative
  - (d) domestic factor incomes will be greater than national income
- Q.36) Redistribution policies are likely to have efficiency costs because
- (a) They will reduce the efficiency of governments
  - (b) They may create disincentives to work and save
  - (c) Governments have to forego taxes
  - (d) They are likely to make the poor people dependent on the rich
- Q.37) \_\_\_\_\_ considered demand for money is as an application of a more general theory of demand for capital assets
- (a) Baumol
  - (b) James Tobin
  - (c) J M Keynes
  - (d) Milton Friedman
- Q.38) SPS measures and TBTs are
- (a) permissible under WTO to protect the interests of countries
  - (b) may result in loss of competitive advantage of developing countries
  - (c) increases the costs of compliance to the exporting countries
  - (d) All the above
- Q.39) The post independence economic policy was rooted in -
- (a) A capitalist mode of production with heavy industrialization
  - (b) social and economic redistribution and industrialization directed by the state
  - (c) social and economic redistribution through private sector initiatives
  - (d) Industrialization led by private entrepreneurs and redistribution by state
- Q.40) Leading economic indicators
- (a) are used to forecast probable shifts in economic policies
  - (b) are generally used to forecast economic fluctuations
  - (c) are indicators of stock prices existing in an economy
  - (d) are indicators of probable recession and depression
- Q.41) \_\_\_\_\_ is also called as command economy
- (a) Socialist
  - (b) Capitalist
  - (c) Mixed economy
  - (d) None of the above
- Q.42) If we assume the following scenario: as the average income of the consumer increases the demand for “fast” food decreases, then we can assume that “fast” food is:
- (a) a normal good.
  - (b) an inferior good.
  - (c) None of the above is correct.
  - (d) Either of these

- Q.43) If marginal product of labour is below average product of labour, then:
- (a) average product of labour is flat.
  - (b) average product of labour is increasing.
  - (c) average product of labour is decreasing.
  - (d) may be increasing, decreasing or flat
- Q.44) A consumer's preferences are monotonic if and only if between two bundles, the consumer prefers the bundle which has \_\_\_\_.
- (a) more of one of the goods
  - (b) less of at least one of the goods
  - (c) more of at least one of the goods and less of the other good.
  - (d) more of at least one of the goods and no less of the other good.
- Q.45) Mixed income of the self-employed means
- (a) net profits received by self-employed people
  - (b) outside wages received by self-employed people
  - (c) combined factor payments which are not distinguishable,
  - (d) wages due to non-economic activities
- Q.46) The justification for government intervention is best described by
- (a) The need to prevent recession and inflation in the economy
  - (b) The need to modify the outcomes of private market actions
  - (c) The need to bring in justice in distribution of income and wealth
  - (d) All the above
- Q.47) M1 is the sum of
- (a) currency and coins with the people + demand deposits of banks (Current and Saving accounts) + other deposits of the RBI.
  - (b) currency and coins with the people + demand and time deposits of banks (Current and Saving accounts) + other deposits of the RBI.
  - (c) currency in circulation + Bankers' deposits with the RBI + Other deposits with the RBI
  - (d) none of the above
- Q.48) A tax applied as a percentage of the value of an imported good is known as
- (a) preferential tariff
  - (b) ad valorem tariff
  - (c) specific tariff
  - (d) mixed or compound tariff
- Q.49) Imports of foreign goods and entry of foreign investments were restricted in India because
- (a) The government wanted people to follow the policy of 'Be Indian; Buy Indian'
  - (b) Because foreign goods were costly and meant loss of precious foreign exchange
  - (c) Government policy was directed towards protection of domestic industries from foreign competition
  - (d) Government wanted to preserve Indian culture and to avoid influence of foreign culture

- Q.50) Industries that are extremely sensitive to the business cycle are the
- (a) Durable goods and service sectors.
  - (b) Non-durable goods and service sectors.
  - (c) Capital goods and non-durable goods sectors.
  - (d) Capital goods and durable goods sectors.
- Q.51) If cross-price elasticity between goods A and B is determined to be exactly zero, which of the following statements is correct?
- (a) Goods A and B are substitutes
  - (b) Goods A and B are complements
  - (c) Goods A and B are comparatives
  - (d) Goods A and B are independent
- Q.52) Inputs that cannot be easily varied during the time period under consideration are called:
- (a) short run inputs.
  - (b) long run inputs.
  - (c) fixed inputs.
  - (d) variable inputs.
- Q.53) Marshallian theory of consumer's behaviour is based on:
- (a) Hypothesis of additive utilities.
  - (b) Hypothesis of independent utilities.
  - (c) Both (A) and (B)
  - (d) Weak ordering
- Q.54) According to Keynes, consumption expenditure is determined by
- (a) the level of interest rates
  - (b) extent of government taxes and subsidies
  - (c) disposable income
  - (d) autonomous investment expenditure
- Q.55) Which function does the government perform when it provides transfer payments to offer support to the underprivileged
- (a) Allocation
  - (b) Efficiency
  - (c) Distribution
  - (d) None of the above
- Q.56) The money multiplier and the money supply are
- (a) positively related to the excess reserves ratio  $e$ .
  - (b) negatively related to the excess reserves ratio  $e$ .
  - (c) not related to the excess reserves ratio  $e$ .
  - (d) proportional to the excess reserves ratio  $e$
- Q.57) Which of the following culminated in the establishment of the World Trade Organization?
- (a) The Doha Round
  - (b) The Tokyo Round
  - (c) The Uruguay Round
  - (d) The Kennedy Round

- Q.58) Merchandise Exports from India Scheme was replaced by -  
(a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021  
(b) National Logistics Policy (NLP) in 2020  
(c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019  
(d) None of the above
- Q.59) If supply increases while demand decreases:  
(a) the equilibrium price will definitely increase.  
(b) the equilibrium quantity will definitely increase.  
(c) the equilibrium price will definitely decrease.  
(d) the equilibrium quantity will definitely decrease.
- Q.60) The law of variable proportions is drawn under all of the assumptions mentioned below except the assumption that:  
(a) the technology is changing.  
(b) there must be some inputs whose quantity is kept fixed.  
(c) we consider only physical inputs and not economically profitability in monetary terms.  
(d) the technology is given and stable.
- Q.61) Some economists have suggested that oligopolists tend to maintain stable prices when there are changes in the demand for their products or in their costs of production. Which of the following models provides an explanation for this type of behavior?  
(a) Price leadership  
(b) Centralized cartel  
(c) Prisoners' dilemma  
(d) Kinked demand curve
- Q.62) 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
- Q.63) Markets do not exist  
(a) for goods which have positive externalities  
(b) for pure public goods  
(c) for goods which have negative externalities  
(d) none of the above
- Q.64) The ratio that relates the change in the money supply to a given change in the monetary base is called the  
(a) required reserve ratio.  
(b) money multiplier.  
(c) deposit ratio.  
(d) discount rate.

- Q.65) The World Trade Organization (WTO)
- (a) has now been replaced by the GATT
  - (b) has an inbuilt mechanism to settle disputes among members
  - (c) was established to ensure free and fair trade internationally.
  - (d) (b) and c) above
- Q.66) FAME-India Scheme aims to
- (a) Enhance faster industrialization through private participation
  - (b) to promote manufacturing of electric and hybrid vehicle technology
  - (c) to spread India's fame among its trading partners
  - (d) None of the above
- Q.67) The particular level of AD which is equal to AS is called\_\_\_\_\_.
- (a) equilibrium demand
  - (b) effective demand
  - (c) derived demand
  - (d) None of the above
- Q.68) If roller- coaster ride is a function of amusement park visit, then, if the price of amusement park entry falls
- (a) The demand for roller- coaster rides will rise and the demand curve will shift to right
  - (b) The demand for roller coaster ride cannot be predicted as it depends on the tastes of consumers for the ride
  - (c) There will be an expansion in the demand for roller coaster drive as it complementary
  - (d) None of the above
- Q.69) Which of the following statements is true about this consumer?
- (a) The consumer is not maximizing her utility at point K
  - (b) The consumer is spending her entire income on both goods
  - (c) The consumer gets equal pleasure at points B and K
  - (d) All the above
- Q.70) Which one of the following is also known as planning curve?
- (a) Long run average cost curve.
  - (b) Short run average cost curve.
  - (c) Average variable cost curve.
  - (d) Average total cost curve.
- Q.71) The "law of diminishing returns" applies to:
- (a) the short run, but not the long run.
  - (b) the long run, but not the short run.
  - (c) both the short run and the long run.
  - (d) neither the short run nor the long run.

- Q.72) The marginal product of a variable input is best described as:
- (a) total product divided by the number of units of variable input.
  - (b) the additional output resulting from a one unit increase in the variable input.
  - (c) the additional output resulting from a one unit increase in both the variable and fixed inputs.
  - (d) the ratio of the amount of the variable input that is being used to the amount of the fixed input that is being used.
- Q.73) Railways is an example of:
- (a) Perfect Competition
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) Oligopoly
- Q.74) On the basis of volume of Business the market can be classified as:
- (a) Wholesale Market
  - (b) Retail Market
  - (c) Both a & b
  - (d) None of these
- Q.75) Price varies by attributes such as location or by Customer Segment is \_\_\_\_\_ degree of Price Discrimination.
- (a) First
  - (b) Second
  - (c) Third
  - (d) Fourth
- Q.76) Natural Monopoly arises when
- (a) There is enormous goodwill enjoyed by a firm.
  - (b) There are stringent legal and regulatory requirement.
  - (c) There are very large Economies of Scale.
  - (d) There are Business Combinations and Cartels.
- Q.77) Weekly market is example of \_\_\_\_\_ Market:
- (a) Regulated Market
  - (b) Spot Market
  - (c) Forward Market
  - (d) Unregulated Market
- Q.78) Which of the following statements is incorrect?
- (a) Under monopoly there is no difference between a firm and an industry.
  - (b) A monopolist may restrict the output and raise the price.
  - (c) Commodities offered for sale under a perfect competition will be heterogeneous.
  - (d) Product differentiation is peculiar to monopolistic competition.



- Q.79) Price discrimination is related to
- (a) time
  - (b) size of the purchase
  - (c) income
  - (d) any of the above
- Q.80) The market for the ultimate consumers is known as
- (a) whole sale market
  - (b) regulated market
  - (c) unregulated market
  - (d) retail market
- Q.81) The marginal propensity to consume (MPC) can be defined as
- (a) a change in spending due to a change in income
  - (b) a change in income that is saved after consumption
  - (c) part of income that is spent on consumption.
  - (d) part of income that is not saved
- Q.82) In a closed economy, aggregate demand is the sum of
- (a) consumer expenditure, demand for exports and government spending.
  - (b) consumer expenditure, planned investment spending and government spending.
  - (c) consumer expenditure, actual investment spending, government spending and net exports.
  - (d) consumer expenditure, planned investment spending, government spending, and net exports.
- Q.83) The stabilization function is concerned with the performance of the aggregate economy in the term of-
- (a) Overall output & income
  - (b) General price level
  - (c) Balance of international payments
  - (d) All of these
- Q.84) If a country's Gross Domestic Product (GDP) is greater than its Gross National Product (GNP), it implies that the country:
- (a) Is a net exporter.
  - (b) Is a net importer.
  - (c) Has a trade surplus
  - (d) Has a trade deficit
- Q.85) What is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach?
- (a)  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$
  - (b)  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$
  - (c)  $GDP = \text{Consumption} + \text{Investment}$
  - (d)  $GDP = \text{Consumption} + \text{Net Exports}$

- Q.86) Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?
- (a) National debt
  - (b) Budget surplus
  - (c) Fiscal deficit
  - (d) Revenue deficit
- Q.87) The industrial sector depends on the agricultural sector because:
- (a) the agricultural sector provides food and other products for the consumption purposes of industrial sector
  - (b) the agricultural sector provides raw materials for the development of agro-based industries of the economy
  - (c) the agricultural sector provides market for the industrial products
  - (d) all of the above
- Q.88) Which of the following is more sensitive to short-term changes in economic conditions?
- (a) FDI
  - (b) FPI
  - (c) Both FDI and FPI
  - (d) Neither FDI nor FPI
- Q.89) If an individual tends to drive his car in a dangerously high speed because he has a comprehensive insurance cover, it is a case of
- (a) free riding
  - (b) moral hazard
  - (c) poor upbringing
  - (d) Inefficiency
- Q.90) Which one of the following would you suggest for reducing negative externality?
- (a) Production subsidies
  - (b) Excise duty
  - (c) Pigouvian taxes
  - (d) All of the above
- Q.91) Short-term credit from the Reserve Bank to state governments to bridge temporary mismatches in cash flows is known as
- (a) RBI credit to states
  - (b) Commercial credit of RBI
  - (c) Ways and Means Advances (WMA)
  - (d) Short term facility
- Q.92) By way of an optimal choice, a consumer tends to:
- (a) save money
  - (b) purchase large quantity
  - (c) maximize satisfaction
  - (d) maximize satisfaction subject to constraints like tastes and preferences.

- Q.93) Which of the following is included in M2, a broader measure of money supply compared to M1?
- (a) Currency in circulation
  - (b) Savings deposits
  - (c) Demand deposits
  - (d) Travellers' checks
- Q.94) A central bank that wants to stabilize the economy in the short run should try to:
- (a) establish a clear inflation target and stick to it no matter what
  - (b) affect aggregate supply through open market operations
  - (c) affect aggregate demand through open market operations
  - (d) concentrate only on long-run goals
- Q.95) The Agreement on Trade-Related Aspects of Intellectual Property Rights
- (a) stipulates to administer a system of enforcement of intellectual property rights.
  - (b) provides for most-favoured-nation treatment and national treatment for intellectual properties
  - (c) mandates to maintain high levels of intellectual property protection by all members
  - (d) all the above
- Q.96) All else equal, which of the following is true if consumers of India develop taste for imported commodities and decide to buy more from the US?
- (a) The demand curve for dollars shifts to the right and Indian Rupee appreciates
  - (b) The supply of US dollars shrinks and, therefore, import prices decrease
  - (c) The demand curve for dollars shifts to the right and Indian Rupee depreciates
  - (d) The demand curve for dollars shifts to the left and leads to an increase in exchange rate
- Q.97) An increase in the supply of foreign exchange
- (a) shifts the supply curve to the right and as a consequence, the exchange rate declines
  - (b) shifts the supply curve to the right and as a consequence, the exchange rate increases
  - (c) more units of domestic currency are required to buy a unit of foreign exchange
  - (d) the domestic currency depreciates and the foreign currency appreciates
- #competition
- Q.98) Which of the following matters is/are fundamentally connected to economic analysis?
- (a) Economic prosperity
  - (b) Higher standard of living
  - (c) Changes in price of a commodity
  - (d) All of the above
- Q.99) Which of the following is a common solution to the problem of common resources being overused?
- (a) Government regulation
  - (b) Privatization
  - (c) Subsidies
  - (d) Free-market competition

Q.100) Which of the following are the features of a mixed economy?

- (a) Planned economy
- (b) Dual system of pricing exists
- (c) Balance regional development
- (d) All of the above

### ANSWERS

<b>No.1</b>	c	<b>No.21</b>	b	<b>No.41</b>	a	<b>No.61</b>	d	<b>No.81</b>	a
<b>No.2</b>	b	<b>No.22</b>	c	<b>No.42</b>	b	<b>No.62</b>	c	<b>No.82</b>	b
<b>No.3</b>	a	<b>No.23</b>	a	<b>No.43</b>	c	<b>No.63</b>	b	<b>No.83</b>	d
<b>No.4</b>	b	<b>No.24</b>	d	<b>No.44</b>	d	<b>No.64</b>	b	<b>No.84</b>	d
<b>No.5</b>	b	<b>No.25</b>	b	<b>No.45</b>	c	<b>No.65</b>	d	<b>No.85</b>	b
<b>No.6</b>	d	<b>No.26</b>	b	<b>No.46</b>	d	<b>No.66</b>	b	<b>No.86</b>	a
<b>No.7</b>	c	<b>No.27</b>	a	<b>No.47</b>	a	<b>No.67</b>	b	<b>No.87</b>	d
<b>No.8</b>	b	<b>No.28</b>	c	<b>No.48</b>	b	<b>No.68</b>	a	<b>No.88</b>	b
<b>No.9</b>	b	<b>No.29</b>	c	<b>No.49</b>	c	<b>No.69</b>	d	<b>No.89</b>	b
<b>No.10</b>	c	<b>No.30</b>	a	<b>No.50</b>	d	<b>No.70</b>	a	<b>No.90</b>	c
<b>No.11</b>	b	<b>No.31</b>	c	<b>No.51</b>	d	<b>No.71</b>	a	<b>No.91</b>	c
<b>No.12</b>	a	<b>No.32</b>	b	<b>No.52</b>	c	<b>No.72</b>	b	<b>No.92</b>	d
<b>No.13</b>	b	<b>No.33</b>	c	<b>No.53</b>	c	<b>No.73</b>	c	<b>No.93</b>	b
<b>No.14</b>	d	<b>No.34</b>	a	<b>No.54</b>	c	<b>No.74</b>	c	<b>No.94</b>	c
<b>No.15</b>	b	<b>No.35</b>	a	<b>No.55</b>	c	<b>No.75</b>	c	<b>No.95</b>	d
<b>No.16</b>	c	<b>No.36</b>	b	<b>No.56</b>	b	<b>No.76</b>	c	<b>No.96</b>	c
<b>No.17</b>	d	<b>No.37</b>	d	<b>No.57</b>	c	<b>No.77</b>	d	<b>No.97</b>	a
<b>No.18</b>	c	<b>No.38</b>	d	<b>No.58</b>	a	<b>No.78</b>	c	<b>No.98</b>	d
<b>No.19</b>	c	<b>No.39</b>	b	<b>No.59</b>	c	<b>No.79</b>	d	<b>No.99</b>	a
<b>No.20</b>	a	<b>No.40</b>	b	<b>No.60</b>	a	<b>No.80</b>	d	<b>No.100</b>	d

**TEST 5**

Max Marks 100

**Questions**

- Q.1) The term Economics owes its origin to Greek word \_\_\_\_
- a) Aikonomia
  - b) Wikonomia
  - c) Oikonomia
  - d) None of the above
- Q.2) Two Commodities are called \_\_\_\_ when they satisfy the same want and can be used with ease in place of one another.
- a) Substitutes
  - b) Complementary
  - c) Un-related
  - d) Opposite
- Q.3) Which of the following cost wherein curve is not 'u' shaped?
- (a) Average fixed cost curve
  - (b) Average cost curve
  - (c) Marginal cost curve
  - (d) None of these
- Q.4) Price discrimination cannot persist Under which market form –
- (a) Perfect competition
  - (b) Monopolistic Competition
  - (c) Monopoly
  - (d) None of these
- Q.5) Cost of living increase when business cycle is operating at its
- (a) Lowest point
  - (b) Peak
  - (c) Contracting
  - (d) Expanding
- Q.6) Inflation occurs whenever:
- (a) aggregate demand rises.
  - (b) the price of any given commodity rises.
  - (c) the average price of most goods and services rises.
  - (d) the tax rate is lower than the government spending rate.
- Q.7) Which of the following are capital receipts of the government?
- (a) Recovery of loans
  - (b) Disinvestment
  - (c) Borrowing
  - (d) All of the above

- Q.8) Choose the incorrect statement
- (a) Anything that would act as a medium of exchange is money
  - (b) Money has generalized purchasing power and is generally acceptable in settlement of all transactions
  - (c) Money is a totally liquid asset and provides us with means to access goods and services
  - (d) Currency which represents money does not necessarily have intrinsic value.
- Q.9) Which of the following does not represent a difference between internal trade and international trade?
- (a) transactions in multiple currencies
  - (b) homogeneity of customers and currencies
  - (c) differences in legal systems
  - (d) none of the above
- Q.10) The first wave of liberalization starts in India
- (a) In 1951
  - (b) In 1980's
  - (c) In 1990
  - (d) In 1966
- Q.11) Which one is the feature of Marshall's definition?
- a) Limited ends
  - b) Scarce means
  - c) Study of wealth & mankind
  - d) Study of allocation of resources
- Q.12) Potato chips and popcorn are substitutes. A rise the price of potato chips will \_\_\_\_ the demand for popcorn and the quantity of popcorn will \_\_\_\_\_
- a) Increase; increase
  - b) Increase; decrease
  - c) Decrease; decrease
  - d) Decrease; increase
- Q.13) The Producer is in equilibrium at a point there the cost line is:
- (a) above the isoquant
  - (b) cutting the isoquant
  - (c) Tangent to isoquant
  - (d) None of these
- Q.14) AR is different from MR under which form of market :
- (a) Monopoly
  - (b) Monopolistic competition
  - (c) Perfect Competition
  - (d) Both a and b

- Q.15) Which is not the External Causes of business cycle:
- (a) Technology shock
  - (b) Population Growth
  - (c) Money Supply
  - (d) Technology Shock
- Q.16) Which of the following is a limitation of using GDP as a measure of economic well-being?
- (a) It includes only monetary transactions.
  - (b) It does not account for income distribution.
  - (c) It considers both market and non-market activities.
  - (d) It is not affected by inflation.
- Q.17) What is the primary goal of countercyclical fiscal policy in budgeting?
- (a) Maximizing government revenue.
  - (b) Stabilizing the economy during economic downturns.
  - (c) Minimizing government intervention.
  - (d) None of these
- Q.18) Demand for money is
- (a) Derived demand
  - (b) Direct demand
  - (c) Real income demand
  - (d) Inverse demand
- Q.19) Ricardo explained the law of comparative advantage on the basis of
- (a) opportunity costs
  - (b) the law of diminishing returns
  - (c) economies of scale
  - (d) the labour theory of value
- Q.20) The Indian industry stagnated under the colonial rule because
- (a) Indians were keen on building huge structures and monuments only
  - (b) Deterioration was caused by high prices of inputs due to draught
  - (c) The Indian manufactures could not compete with the imports of cheap machine made goods
  - (d) None of the above
- Q.21) Adam Smith defined economics in terms of\_\_\_\_
- a) Science of Welfare
  - b) Science of Scarcity
  - c) Science of Wealth
  - d) Science of Wealth & Welfare
- Q.22) In a demand function, the demand for a product is the\_\_\_\_\_
- a) Independent Variable
  - b) Explanatory Variable
  - c) Dependent variables
  - d) Complex variable

- Q.23) Envelope curve is also called:
- (a) Long Run Average Cost curve
  - (b) Short Run Average Cost curve
  - (c) Average Fixed Cost
  - (d) None of these
- Q.24) Monopolistic Competition theory architect was
- (a) Roden
  - (b) Marx
  - (c) J R Hicks
  - (d) Chamberlin
- Q.25) A significant decline in general economic activity extending over a period of time is
- (a) business cycle
  - (b) contraction phase
  - (c) recession
  - (d) recovery
- Q.26) Concept of Business Economics was given by:
- (a) Joel Dean
  - (b) Alfred Marshall
  - (c) Adam Smith
  - (d) L. Robbins
- Q.27) Macroeconomic stabilization may be achieved through
- (a) Free market economy
  - (b) Fiscal policy
  - (c) Monetary policy
  - (d) (b) and (c) above
- Q.28) According to Baumol and Tobin's approach to demand for money, the optimal average money holding is:
- (a) a positive function of income  $Y$  and the price level  $P$
  - (b) a positive function of transactions costs  $c$
  - (c) a negative function of the nominal interest rate
  - (d) All the above
- Q.29) A tariff on imports is beneficial to domestic producers of the imported good because
- (a) they get a part of the tariff revenue
  - (b) it raises the price for which they can sell their product in the domestic market
  - (c) it determines the quantity that can be imported to the country
  - (d) it reduces their producer surplus, making them more efficient
- Q.30) The sequence of growth and structural change in Indian economy is characterized by
- (a) The historical pattern of prominence of sectors as agriculture, industry, services
  - (b) The historical pattern of prominence of sectors as industry, services, agriculture
  - (c) Unique experience of the sequence as agriculture, services, industry
  - (d) All the above are correct



- Q.31) The central problem in economics is that of
- (a) comparing the success of command versus market economies.
  - (b) guaranteeing that production occurs in the most efficient manner.
  - (c) guaranteeing a minimum level of income for every citizen.
  - (d) allocating scarce resources in such a manner that society's unlimited needs or wants are satisfied in the best possible manner.
- Q.32) The demand curve has a \_\_\_\_\_ Slope.
- a) Positive
  - b) Negative.
  - c) Circular
  - d) No
- Q.33) Which of the following statements is true?
- (a) Accumulation of capital depends solely on income of individuals.
  - (b) Savings can be influenced by government policies.
  - (c) External economies go with size and internal economies with location.
  - (d) The supply curve of labour is an upward slopping curve.
- Q.34) Monopsony market and monopoly market when combined is called:
- (a) Oligopoly market
  - (b) Monopolistic market
  - (c) Duopoly market
  - (d) Bilateral Money Market
- Q.35) The cobweb theory was propounded by \_\_\_\_\_
- (a) Hawtrey
  - (b) Adam Smith
  - (c) J M Keynes
  - (d) Nicholas Kaldor
- Q.36) If the central bank conducts an open market purchase of government securities, what is the likely impact on the money supply?
- (a) Increase
  - (b) Decrease
  - (c) No change
  - (d) Variable, depending on other factors.
- Q.37) Government of Emeline Land decides to provide most modern road infrastructure throughout the nation. This can be classified as
- (a) Distribution function
  - (b) Allocation function
  - (c) Stabilization function
  - (d) None of the above

- Q.38) The nominal demand for money rises if
- (a) the opportunity costs of money holdings – i.e. bonds and stock returns,  $r_B$  and  $r_E$ , respectively- decline and vice versa
  - (b) the opportunity costs of money holdings – i.e. bonds and stock returns,  $r_B$  and  $r_E$ , respectively- rises and vice versa
  - (c) the opportunity costs of money holdings – i.e. bonds and stock returns,  $r_B$  and  $r_E$ , respectively remain constant
  - (d) b) and c) above
- Q.39) Escalated tariff refers to
- (a) nominal tariff rates on raw materials which are greater than tariffs on manufactured products
  - (b) nominal tariff rates on manufactured products which are greater than tariffs on raw materials
  - (c) a tariff which is escalated to prohibit imports of a particular good to protect domestic industries
  - (d) none of the above
- Q.40) The Foreign Investment Promotion Board (FIPB)
- (a) a government entity through which inward investment proposals were routed to obtain required government approvals
  - (b) no more exists as the same is replaced by a new regime namely Foreign Investment Facilitation Portal
  - (c) no more exists as all inward investments are through automatic route and need no approval
  - (d) is the body which connects different ministries in respect of foreign portfolio investments
- Q.41) Ram: My corn harvest this year is poor.  
Krishan: Don't worry. Price increases will compensate for the fall in quantity supplied.  
Vinod: Climate affects crop yields. Some years are bad, others are good.  
Madhu: The Government ought to guarantee that our income will not fall.  
In this conversation, the normative statement is made by -
- (a) Ram
  - (b) Krishan
  - (c) Vinod
  - (d) Madhu
- Q.42) The quantity demanded is always expressed \_\_\_\_
- a) Separately in isolation
  - b) Separately with quantity supplied
  - c) At a given price
  - d) None of these

- Q.43) Which of the following statements describes increasing returns to scale?
- (a) Doubling of all inputs used leads to doubling of the output.
  - (b) Increasing the inputs by 50% leads to a 25% increase in output.
  - (c) Increasing inputs by  $1/4$  leads to an increase in output of  $1/3$ .
  - (d) None of the above.
- Q.44) Monopolist Charges different price for his commodity in discriminating monopoly implies:
- (a) At different places
  - (b) For different uses
  - (c) From different group of consumers
  - (d) Any of the above
- Q.45) If the growth rate of population is higher than the rate of economic growth, there will be \_\_\_\_ in the economy.
- (a) more savings
  - (b) no effect on savings
  - (c) lesser savings
  - (d) none of these
- Q.46) Which component of National Income represents the income earned by individuals and businesses before taxes and other deductions?
- (a) Personal Income
  - (b) Disposable Income
  - (c) Gross National Product (GNP)
  - (d) Gross Domestic Product (GDP)
- Q.47) Which of the following is true in respect of centre and state government finances?
- (a) The centre can tax agricultural income and mineral rights
  - (b) Finance commission recommends distribution of taxes between the centre and states
  - (c) GST subsumes majority of direct taxes and a few indirect taxes
  - (d) IGST is collected by the state governments
- Q.48) Reserve money is also known as
- (a) central bank money
  - (b) base money
  - (c) high powered money
  - (d) all the above
- Q.49) A countervailing duty is
- (a) a tariff that aim to offset artificially low prices charged by exporters who enjoy export subsidies and tax concessions in their home country
  - (b) charged by importing countries to ensure fair and market-oriented pricing of imported products
  - (c) charged by importing countries to protect domestic industries and firms from unfair price advantage arising from subsidies
  - (d) All the above

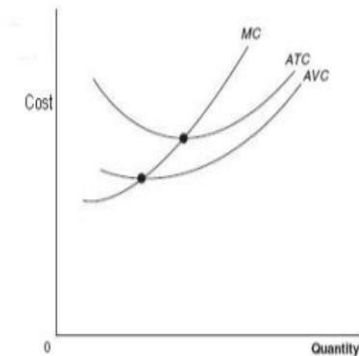
Q.50) E-NAM is -

- (a) An electronic name card given to citizens of India
- (b) National Agriculture Market with the objective of creating a unified national market for agricultural commodities.
- (c) a pan-India electronic trading portal which networks the existing APMC mandis
- (d) b) and c) above

Q.51) Ceteris Paribus, the demand for a commodity is inversely related to its price. This happens because of \_\_\_\_

- a) Income Effect
- b) Substitution Effect
- c) Both (1) & (2)
- d) None of above

Q.52) In figure below, possible reason why the average variable cost curve approaches the average total cost curve as output rises is:



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

Q.53) Pears, Liril & Dove are example of

- (a) Perfect Competition
- (b) Monopoly
- (c) Monopolistic Competition
- (d) None of these

Q.54) Non-economic activities are

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

- Q.55) The percentage of share of states in central taxes for the period 2021-26 recommended by the Fifteenth Finance Commission is
- (a) 38 percent
  - (b) 41 percent
  - (c) 42 percent
  - (d) The commission has not submitted its report
- Q.56) Banks in the country are required to maintain deposits with the central bank
- (a) to provide the necessary reserves for the functioning of the central bank
  - (b) to meet the demand for money by the banking system
  - (c) to meet the central bank prescribed reserve requirements and to meet settlement obligations.
  - (d) to meet the money needs for the day to day working of the commercial banks
- Q.57) Choose the correct statement
- (a) The GATT was meant to prevent exploitation of poor countries by richer countries
  - (b) The GATT dealt with trade in goods only, while, the WTO covers services as well as intellectual property.
  - (c) All members of the World Trade Organization are required to avoid tariffs of all types
  - (d) All the above
- Q.58) The 'Hindu growth rate' is a term used to refer to -
- (a) the high rate of growth achieved after the new economic policy of 1991
  - (b) the low rate of economic growth of India from the 1950s to the 1980s, which averaged around 3.5 per cent per year
  - (c) the low growth of the economy during British period marked by an average of 3.5 percent
  - (d) the growth rate of the country because India is referred to as 'Hindustan'
- Q.59) Traditional approach of law of demand was propounded by\_\_\_\_.
- (a) Giffen
  - (b) Paul A Samuelson
  - (c) Alfred Marshall
  - (d) Pique
- Q.60) Which one of the following is an external economies of scale in long run?
- (a) Risk bearing economies
  - (b) Financial economies
  - (c) Development of skill labour
  - (d) None of the above
- Q.61) Under \_\_\_\_\_ the monopolist will fix a price which will take away the entire consumers' surplus.
- (a) second degree of price discrimination
  - (b) first degree of price discrimination
  - (c) third degree of price discrimination
  - (d) none of the above.

- Q.62) Choose the correct statement
- (a) GNP includes earnings of Indian corporations overseas and Indian residents working overseas; but GDP does not include these
  - (b)  $NNPFC = National\ Income = FID\ (factor\ income\ earned\ in\ domestic\ territory) - NFIA.$
  - (c) Capital goods and inventory investment are excluded from computation of GDP
  - (d)  $NDPMP = GDPMP + Depreciation$
- Q.63) Which of the following is an example of market failure?
- (a) Prices of goods tend to rise because of shortages
  - (b) Merit goods are not sufficiently produced and supplied
  - (c) Prices fall leading to fall in profits and closure of firms
  - (d) None of the above
- Q.64) The size of the money multiplier is determined by
- (a) the currency ratio (c) of the public,
  - (b) the required reserve ratio (r) at the central bank, and
  - (c) the excess reserve ratio (e) of commercial banks.
  - (d) all the above
- Q.65) The WTO commitments
- (a) affect developed countries adversely because they have comparatively less agricultural goods
  - (b) affect developing countries more because they need to make radical adjustments
  - (c) affect both developed and developing countries equally
  - (d) affect none as they increase world trade and ensure prosperity to all
- Q.66) The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -
- (a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few
  - (b) to provide for the control of monopolies
  - (c) to prohibit monopolistic and restrictive trade practice
  - (d) all the above
- Q.67) Which of the following statements is correct?
- (a) When the slope of the demand curve is zero, demand is infinitely elastic and when the slope is infinite, elasticity is zero.
  - (b) When the slope of the demand curve is zero, the elasticity is also zero and when the slope is infinite, elasticity is also infinite.
  - (c) When the slope of the demand curve is zero, the elasticity is unity and also when the slope is infinite, elasticity is unity.
  - (d) None of these

- Q.68) Demand for complementary goods are:
- (a) Derived Demand
  - (b) Autonomous demand
  - (c) Aggregate Demand
  - (d) None of these
- Q.69) The economist's concept of demand is \_\_\_\_\_ as desire or need or choice or preference or order.
- (a) the same thing
  - (b) not the same thing
  - (c) (a) or (b)
  - (d) None of these
- Q.70) Identify the correct statement:
- (a) The average product is at its maximum when marginal product is equal to average product.
  - (b) The law of increasing returns to scale relates to the effect of changes in factor proportions.
  - (c) Economies of scale arise only because of indivisibilities of factor proportions.
  - (d) Internal economies of scale can accrue when industry expands beyond optimum.
- Q.71) Which of the following is a FALSE statement?
- (a) The very long run focuses on the growth of productive capacity
  - (b) In the very long run, the productive capacity is assumed to be given
  - (c) In the very short run, shifts in aggregate demand determine how much output is produced
  - (d) Fluctuations in the rates of inflation and unemployment are important long-run issues
- Q.72) Under the law of variable proportion, stage I is known as the stage of increasing returns because:
- (a) Marginal product of the variable factor increases throughout this stage
  - (b) Average product of the variable factor increases throughout this stage
  - (c) Marginal product increases at increasing rate throughout this stage
  - (d) Total increases at increasing rate throughout this stage
- Q.73) If the average cost is higher than the average revenue then the firm incurs \_\_\_\_\_
- (a) Normal profit
  - (b) Abnormal profit
  - (c) Loss
  - (d) No profit, no loss
- Q.74) Marginal revenue can be defined as the change in total revenue resulting from the:
- (a) purchase of an additional unit of a commodity
  - (b) sales of an additional unit of a commodity
  - (c) sale of subsequent units of a product
  - (d) none of the above

- Q.75) When an oligopolist individually chooses its level of production to maximize its profits, it charges a price that is
- (a) more than the price charged by either monopoly or a competitive market
  - (b) less than the price charged by either monopoly or a competitive market
  - (c) more than the price charged by a monopoly and less than the price charged by a competitive market
  - (d) less than the price charged by a monopoly and more than the price charged by a competitive market.
- Q.76) When \_\_\_\_\_, we know that the firms under perfect competition must be producing at the minimum point of the average cost curve and so there will be productive efficiency.
- (a)  $AC = AR$
  - (b)  $MC = AC$
  - (c)  $MC = MR$
  - (d)  $AR = MR$
- Q.77) When price is less than average variable cost at the profit-maximising level of output, a firm should:
- (a) produce where marginal revenue equals marginal cost if it is operating in the short run.
  - (b) produce where marginal revenue equals marginal cost if it is operating in the long run.
  - (c) shut down, since it will lose nothing in that case.
  - (d) shut down, since it cannot even cover its variable costs if it stays in business.
- Q.78) Monopoly may arise in a product market because
- (a) A significantly important resource for the production of the commodity is owned by a single firm.
  - (b) The government has given the firm patent right to produce the commodity.
  - (c) The costs of production and economies of scale makes production by a single producer more efficient.
  - (d) All the above.
- Q.79) Assume that in the market for good Z there is a simultaneous increase in demand and the quantity supplied. The result will be:
- (a) an increase in equilibrium price and quantity.
  - (b) a decrease in equilibrium price and quantity.
  - (c) an increase in equilibrium quantity and uncertain effect on equilibrium price.
  - (d) a decrease in equilibrium price and increase in equilibrium quantity.
- Q.80) Which of the following is not an essential condition of pure competition?
- (a) Large number of buyers and sellers
  - (b) Homogeneous product
  - (c) Freedom of entry
  - (d) Absence of transport cost



- Q.81) The GDP per capita is
- (a) a measure of a country's economic output per person
  - (b) actual current income receipts of persons
  - (c) national income divided by population
  - (d) (a) and (c) above
- Q.82) If the consumption function is expressed as  $C = a + bY$  then  $a$  represents
- (a) autonomous consumer expenditure.
  - (b) the marginal propensity to consume.
  - (c) the consumption income relationship
  - (d) Non-linear consumption function
- Q.83) Keynes believed that an economy may attain equilibrium level of output
- (a) only at the full-employment level of output
  - (b) below the full-employment level of output
  - (c) only if prices were inflexible
  - (d) a) and c) above
- Q.84) According to Keynes, consumption expenditure is determined by
- (a) the level of interest rates
  - (b) extent of government taxes and subsidies
  - (c) disposable income
  - (d) autonomous investment expenditure
- Q.85) Consumer Price Index is calculated:
- (a) Once in 45 days
  - (b) Once in 3 months
  - (c) Once in fortnight
  - (d) Once in a month
- Q.86) A nation's gross domestic product (GDP):
- (a) can be found by summing  $C + I + G + X_n$ .
  - (b) is the dollar value of the total output produced by its citizens, regardless of where they are living.
  - (c) can be found by summing  $C + S + G + X_n$ .
  - (d) is always some amount less than its NDP.
- Q.87) Gross investment refers to:
- (a) private investment minus public investment.
  - (b) net investment plus replacement investment.
  - (c) net investment after it has been "inflated" for changes in the price level.
  - (d) net investment plus net exports.
- Q.88) The difference between real and nominal GDP is...
- (a) Nominal GDP only accounts for citizens.
  - (b) Nominal GDP uses price-levels of some base year.
  - (c) Nominal GDP uses actual price-levels.
  - (d) Real GDP also includes services, whereas nominal GDP only takes goods into account.

- Q.89) Adequate amount of a pure public good will not be provided by the private market because of
- (a) the possibility of free riding
  - (b) the existence of very low prices and low profits
  - (c) governments would any way produce them, so there will be overproduction
  - (d) there are restrictions as well as taxes on production of public goods
- Q.90) Which of the following statements is false?
- (a) Tradable permits provide incentive to innovate and reduce negative externalities
  - (b) A subsidy on a good which has substantial positive externalities would reduce its cost and consequently its price would be lower
  - (c) Substantial negative externalities are involved in the consumption of merit goods.
  - (d) Merit goods are likely to be under-produced and under consumed through the market mechanism
- Q.91) Grants given by the central government to state governments is
- (a) A revenue expenditure as it is meant to meet the current expenditure of the states
  - (b) A revenue expenditure as it does neither creates any asset, nor reduces any liability of the government
  - (c) A capital expenditure because it increase the capital base of the states
  - (d) It is a grant and so does not come under revenue expenditure or capital expenditure.
- Q.92) RBI provides financial accommodation to the commercial banks through repos/reverse repos under
- (a) Market Stabilisation Scheme (MSS)
  - (b) The Marginal Standing Facility (MSF)
  - (c) Liquidity Adjustment Facility (LAF).
  - (d) Statutory Liquidity Ratio (SLR)
- Q.93) An open market operation is an instrument of monetary policy which involves buying or selling of \_\_\_\_\_ from or to the public and banks
- (a) bonds and bills of exchange
  - (b) debentures and shares
  - (c) government securities
  - (d) none of these
- Q.94) The monetary transmission mechanism refers to
- (a) how money gets circulated in different sectors of the economy post monetary policy
  - (b) the ratio of nominal interest and real interest rates consequent on a monetary policy
  - (c) the process or channels through which the evolution of monetary aggregates affects the level of product and prices
  - (d) none of the above

- Q.95) An increase in the supply of foreign exchange  
(a) shifts the supply curve to the right and as a consequence, the exchange rate declines  
(b) shifts the supply curve to the right and as a consequence, the exchange rate increases  
(c) more units of domestic currency are required to buy a unit of foreign exchange  
(d) the domestic currency depreciates and the foreign currency appreciates
- Q.96) An argument in favour of direct foreign investment is that it tends to  
(a) promote rural development  
(b) increase access to modern technology  
(c) protect domestic industries  
(d) keep inflation under control
- Q.97) A foreign direct investor  
(a) May enter India only through automatic route  
(b) May enter India only through government route  
(c) May enter India only through equity in domestic enterprises  
(d) Any of the above
- Q.98) What was the main objective of the Fiscal Responsibility and Budget Management Act, of 2003?  
(a) Achieve Fiscal Surplus  
(b) Stop Money Laundering  
(c) Eliminate Fiscal Deficit  
(d) Eliminate Revenue deficit
- Q.99) Freedom of choice is the advantage of \_\_\_\_.  
(a) Socialism  
(b) Capitalism  
(c) Communism  
(d) None of the above
- Q.100) Public goods are characterized by:  
(a) Excludability and rivalry  
(b) Excludability and non-rivalry  
(c) Non-excludability and rivalry  
(d) Non-excludability and non-rivalry

## ANSWERS

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

**TEST 6**

Max Marks 100

**Questions**

- Q.1) Economics is science of choice making. It implies:
- a) No choice is to be made
  - b) Choice is to be made between alternative uses
  - c) Choice is to be made between means & ends
  - d) (b) & (c)
- Q.2) All of the following are determinants of demand except:
- a) Tastes and preferences
  - b) Quantity supplied
  - c) Income of the consumer
  - d) Price of related goods
- Q.3) Which of the following is not a characteristic of land?
- (a) Its supply for the economy is limited.
  - (b) It is immobile.
  - (c) Its usefulness depends on human efforts.
  - (d) It is produced by our forefathers.
- Q.4) The regulatory mechanism of the market system is-
- (a) Self-interest
  - (b) Private property
  - (c) Competition
  - (d) Specialization
- Q.5) Post war reconstruction
- (a) will push the economy to slow down because of excess external debts.
  - (b) will cause pickup in economic activities as the reconstruction pushes up effective demand & in turn employment and income.
  - (c) can cause boom or recession depending upon the policies for reconstruction adopted by govt.
  - (d) None of these
- Q.6) Choose the correct statement
- (a) GNP includes earnings of Indian corporations overseas and Indian residents working overseas; but GDP does not include these
  - (b)  $NNPFC = National\ Income = FID\ (factor\ income\ earned\ in\ domestic\ territory) - NFIA.$
  - (c) Capital goods and inventory investment are excluded from computation of GDP
  - (d)  $NDPMP = GDPMP + Depreciation$

- Q.7) 'Who gave 'The Theory of Public Finance (1959)?
- (a) Adam Smith
  - (b) Richard Musgrave
  - (c) A.C. Pigou
  - (d) Alfred Marshall
- Q.8) Dirty Floating is related to:
- (a) Flexible system of exchange rate
  - (b) fixed system of exchange rate
  - (c) Either of these
  - (d) None of these
- Q.9) Zero sum game theory applies
- a. Mercantilism
  - b. Absolute cost advantage theory
  - c. Factor equalization theorem
  - d. New Trade theory
- Q.10) The government nationalized 14 banks in \_\_\_\_
- a) 1947
  - b) 1935
  - c) 1969
  - d) 1950
- Q.11) Which of the following is not included in business economics?
- a) Family Structure
  - b) Managerial Economics
  - c) Micro Economics
  - d) Macro Economics
- Q.12) When two commodities are complementary, a fall in the price of one (other things being equal) will cause the demand for the other to\_\_.
- a) Fall
  - b) Rise
  - c) Remain constant
  - d) Fall substantially
- Q.13) Diminishing returns occur:
- (a) when units of a variable input are added to a fixed input and total product falls.
  - (b) when units of a variable input are added to a fixed input and marginal product falls.
  - (c) when the size of the plant is increased in the long run.
  - (d) when the quantity of the fixed input is increased and returns to the variable input falls
- Q.14) The buyers in the market include
- (a) Consumers
  - (b) Businesses
  - (c) Government
  - (d) All of the above

- Q.15) Different business cycles \_\_\_\_\_ in duration and intensity.
- (a) differ
  - (b) similar
  - (c) consistent
  - (d) Can't say
- Q.16) Which of the following is an example of transfer payment?
- (a) Old age pensions and family pensions
  - (b) Scholarships given to deserving diligent students.
  - (c) Compensation given for loss of property due to floods
  - (d) All the above
- Q.17) Public goods are characterized by:
- (a) Excludability and rivalry
  - (b) Excludability and non-rivalry
  - (c) Non-excludability and rivalry
  - (d) Non-excludability and non-rivalry
- Q.18) Money Supply is directly proportional to:
- (a) Cash reserve ratio (r)
  - (b) Monetary base (H)
  - (c) currency deposit ratio (k)
  - (d) Money Multiplier (m)
- Q.19) First mover advantage theory is related to
- a. Absolute advantage theory
  - b. Comparative cost advantage theory.
  - c. New trade theory
  - d. Modern theory of trade
- Q.20) Indian Industry Sector contributes \_\_\_ % to GDP
- a) 30
  - b) 40
  - c) 50
  - d) 43
- Q.21) Management of business units generally needs to make \_\_\_\_\_
- a) Strategic Decision
  - b) Tactical Decision
  - c) Operational Decision
  - d) All of the above
- Q.22) If the price of Pepsi decreases relative to the price of Coke and 7-UP, the demand for:
- a) Coke will decrease
  - b) 7-Up will decrease
  - c) Coke and 7-UP will increase
  - d) Coke and 7-Up will decrease

- Q.23) Which cost increases continuously with the increase in production?
- (a) Average cost.
  - (b) Marginal cost.
  - (c) Fixed cost.
  - (d) Variable cost.
- Q.24) A monopolized market is in long run equilibrium when
- (a) Zero economic profit is earned by the monopolist
  - (b) Production takes place where price is equal to long run MC and AC
  - (c) Production takes place where long run MC is equal to MR and price is not below the long run average cost.
  - (d) All of the above are correct
- Q.25) The four phases of the business cycle are
- (a) peak, recession, trough and boom
  - (b) peak, depression, trough and boom
  - (c) peak, recession, trough and recovery
  - (d) peak, depression, bust and boom.
- Q.26) Gross National Product at market prices GNP MP is
- (a) GDP MP + Net Factor Income from Abroad
  - (b) GDP MP - Net Factor Income from Abroad
  - (c) GDP MP - Depreciation
  - (d) GDP MP + Net Indirect Taxes
- Q.27) Which of the following is a common solution to the problem of common resources being overused?
- (a) Government regulation
  - (b) Privatization
  - (c) Subsidies
  - (d) Free-market competition
- Q.28) Which of the following is known as broad money?
- a. M1
  - b. M2
  - c. M3
  - d. M4
- Q.29) Factor abundance is considered to be part of international trade
- a. Heckscher Ohlin theory of international trade
  - b. Comparative cost advantage theory
  - c. New Trade theory
  - d. Factor Equalization theorem
- Q.30) In the context of the new economic policy of 1991, the term 'disinvestment' stands for -
- (a) A policy whereby government investments are reduced to correct fiscal deficit
  - (b) The policy of sale of portion of the government shareholding of a public sector enterprise
  - (c) The policy of public partnership in private enterprise
  - (d) A policy of opening up government monopoly to the privates sector



- Q.31) In Economics, we use the term scarcity to mean -
- (a) Absolute scarcity and lack of resources in less developed countries.
  - (b) Relative scarcity i.e. scarcity in relation to the wants of the society.
  - (c) Scarcity during times of business failure and natural calamities.
  - (d) Scarcity caused on account of excessive consumption by the rich.
- Q.32) The price of tomatoes increases and people buy tomato puree. You infer that tomato puree and tomatoes are\_\_\_\_\_.
- a) Normal goods
  - b) Complements
  - c) Substitutes
  - d) Inferior goods
- Q.33) Which of the following is true of the relationship between the marginal cost function and the average cost function?
- (a) If MC is greater than ATC, then ATC is falling.
  - (b) The ATC curve intersects the MC curve at minimum MC.
  - (c) The MC curve intersects the ATC curve at minimum ATC.
  - (d) If MC is less than ATC, then ATC is increasing.
- Q.34) An industry comprised of a very large number of sellers producing a standardized product is known as
- (a) Monopolistic competition
  - (b) Oligopoly
  - (c) Pure monopoly
  - (d) Pure competition
- Q.35) Economists use changes in a variety of activities to measure the business cycle and to predict where the economy is headed towards which are called \_\_\_\_\_.
- (a) Signals
  - (b) Indicators
  - (c) Barometer
  - (d) Clues
- Q.36) Which of the following is added to national income while calculating personal income?
- (a) Transfer payments to individuals
  - (b) Undistributed profits of corporate
  - (c) Transfer payments made to foreigners
  - (d) Mixed income of self employed
- Q.37) Redistribution policies are likely to have efficiency costs because
- (a) They will reduce the efficiency of governments
  - (b) They may create disincentives to work and save
  - (c) Governments have to forego taxes
  - (d) They are likely to make the poor people dependent on the rich

- Q.38) Reserve money is supplied by
- RBI
  - Government
  - Commercial banks
  - World bank
- Q.39) Money cost is considered by
- Modern theory of trade
  - Comparative cost advantage
  - New Trade theory
  - Factor equalization theorem
- Q.40) The Industrial Policy Resolution (1948) aimed at -
- Market oriented economic reforms and opening up of economy
  - A shift from state led industrialization to private sector led industrialisation
  - an expanded role for the public sector and licensing to the private sector
  - an expanded role of private sector a limited role of public sector
- Q.41) The difference between positive and normative Economics is:
- Positive Economics explains the performance of the economy while normative Economics finds out the reasons for poor performance.
  - Positive Economics describes the facts of the economy while normative Economics involves evaluating whether some of these are good or bad for the welfare of the people.
  - Normative Economics describes the facts of the economy while positive Economics involves evaluating whether some of these are good or bad for the welfare of the people.
  - Positive Economics prescribes while normative Economics describes.
- Q.42) With a fall in the price of a commodity:
- Consumer's real income increases
  - Consumer's real income decreases
  - There is no change in the real income of the consumer
  - None of the above
- Q.43) In describing a given production technology, the short run is best described as lasting:
- up to six months from now.
  - up to five years from now.
  - as long as all inputs are fixed.
  - as long as at least one input is fixed.
- Q.44) Excess capacity is not found under \_\_\_\_\_
- Monopoly
  - Monopolistic competition
  - Perfect competition.
  - Oligopoly

- Q.45) Leading economic indicators
- (a) are used to forecast probable shifts in economic policies
  - (b) are generally used to forecast economic fluctuations
  - (c) are indicators of stock prices existing in an economy
  - (d) are indicators of probable recession and depression
- Q.46) According to Keynes, consumption expenditure is determined by
- (a) the level of interest rates
  - (b) extent of government taxes and subsidies
  - (c) disposable income
  - (d) autonomous investment expenditure
- Q.47) When a government offers unemployment benefits and also resorts to progressive taxation which function does it seem to fulfill?
- (a) It is trying to establish stability in an economy
  - (b) It is trying to redistribute income and wealth
  - (c) It is trying to allocate resources to their most efficient use
  - (d) It is creating a source of market failure
- Q.48) Bank earn a profit on the difference between
- a. Interest charged to depositors and interest offered to borrowers
  - b. Interest charged on loans and interest paid on deposits
  - c. Deposit and loan balances
  - d. Liabilities and deposits
- Q.49) Countries with abundant of capital should focus on
- a. Labour intensive goods
  - b. Capital intensive goods
  - c. Distribute between labour and capital intensive goods
  - d. Importing more machinery
- Q.50) The strategy of agricultural development in India before green revolution was -
- (a) High yielding varieties of seeds and chemical fertilizers to boost productivity
  - (b) Institutional reforms such as land reforms
  - (c) Technological up gradation of agriculture
  - (d) All the above
- Q.51) Which of the following statements is true about this consumer?
- (a) The consumer is not maximizing her utility at point K
  - (b) The consumer is spending her entire income on both goods
  - (c) The consumer gets equal pleasure at points B and K
  - (d) All the above
- Q.52) Supply is the -
- (a) Limited resources-that are available within the seller
  - (b) Cost of Producing a good
  - (c) Entire-relationship between the quantity supplied and the price of good.
  - (d) Willingness to produce a good if the technology to produce it becomes available

- Q.53) Monopolies are allocatively inefficient because:
- (a) They restrict the output to keep the price higher than under perfect competition.
  - (b) They charge a price higher than the marginal cost.
  - (c) Both (a) and (b) are correct.
  - (d) Both (a) and (b) are incorrect.
- Q.54) The marginal propensity to consume (MPC) can be defined as
- (a) a change in spending due to a change in income
  - (b) a change in income that is saved after consumption
  - (c) part of income that is spent on consumption.
  - (d) part of income that is not saved.
- Q.55) 'Market failure' is a situation which occurs when
- (a) private goods are not sufficiently provided by the market
  - (b) public goods are not sufficiently provided by public sector
  - (c) The market fail to form or they allocate resources efficiently
  - (d) (b) and (c) above
- Q.56) In India, the term 'Policy rate' refers to
- (a) The bank rate prescribed by the RBI in its half yearly monetary policy statement
  - (b) The CRR and SLR prescribed by RBI in its monetary policy statement
  - (c) the fixed repo rate quoted for sovereign securities in the overnight segment of Liquidity Adjustment Facility (LAF)
  - (d) the fixed repo rate quoted for sovereign securities in the overnight segment of Marginal Standing Facility (MSF)
- Q.57) Foreign investments are prohibited in
- (a) Power generation and distribution
  - (b) Highways and waterways
  - (c) Chit funds and Nidhi company
  - (d) Airports and air transport
- Q.58) The post-independence economic policy was rooted in -
- (a) A capitalist mode of production with heavy industrialization
  - (b) social and economic redistribution and industrialization directed by the state
  - (c) social and economic redistribution through private sector initiatives
  - (d) Industrialization led by private entrepreneurs and redistribution by state
- Q.59) If the organizers of an upcoming cricket match decide to increase the ticket price in order to raise its revenues, what they have learned from past experience is;
- (a) The percentage increase in ticket rates will be always equal the percentage decrease in tickets sold
  - (b) The percentage increase in ticket rates will be always greater than the percentage decrease in tickets sold
  - (c) The percentage increase in ticket rates will be less than the percentage decrease in tickets sold
  - (d) (a) and (c) above are true

- Q.60) Accounting costs are also called:
- (a) Explicit cost
  - (b) Implicit Cost
  - (c) Either a or b
  - (d) None of these
- Q.61) Price discrimination will be profitable only if the elasticity of demand in different markets in which the total market has been divided is:
- (a) uniform
  - (b) different
  - (c) less
  - (d) zero
- Q.62) Keynes believed that an economy may attain equilibrium level of output
- (a) only at the full-employment level of output
  - (b) below the full-employment level of output
  - (c) only if prices were inflexible
  - (d) a) and c) above
- Q.63) Which of the following is an outcome of market power?
- (a) makes price equal to marginal cost and produce a positive external benefit on others
  - (b) can cause markets to be efficient due to reduction in costs
  - (c) makes the firms price makers and restrict output so as to make allocation inefficient
  - (d) (b) and(c) above
- Q.64) \_\_\_\_\_ is a money market instrument, which enables collateralised short term borrowing and lending through sale/purchase operations in debt instruments.
- (a) OMO
  - (b) CRR
  - (c) SLR
  - (d) Repo
- Q.65) Which of the following is a component of foreign capital?
- (a) Direct inter government loans
  - (b) Loans from international institutions (e.g. World Bank, IMF, ADB)
  - (c) Soft loans for e.g. from affiliates of World Bank such as IDA
  - (d) All the above
- Q.66) Merchandise Exports from India Scheme was replaced by -
- (a) Remission of Duties and Taxes on Export Products (RoDTEP) in 2021
  - (b) National Logistics Policy (NLP) in 2020
  - (c) Remission of Duties and Taxes on Export Products (RoDTEP) in 2019
  - (d) None of the above
- Q.67) Which of the following statements is correct?
- (a) With the help of statistical tools, the demand can be forecasted with perfect accuracy
  - (b) The more the number of substitutes of a commodity, the more elastic is the demand.
  - (c) Demand for butter is perfectly elastic.
  - (d) Gold jewellery will have negative income elasticity.

- Q.68) In law of variable proportion how many stages are there:
- (a) 1
  - (b) 3
  - (c) 5
  - (d) None of these
- Q.69) Relationship between AR, MR and Price elasticity of demand is
- (a)  $MR = AR + [e-1/e]$
  - (b)  $MR = AR \times [e-1/e]$
  - (c)  $AR = MR \times [e-1/e]$
  - (d)  $MR = AR \times [e/e - 1]$
- Q.70) If the consumption function is  $C = 20 + 0.5Y_d$ , then an increase in disposable income by ` 100 will result in an increase in consumer expenditure by `-----
- (a) 25
  - (b) 70
  - (c) 50
  - (d) 100
- Q.71) 'Retail Direct 'scheme is
- (a) Initiated by the Reserve Bank of India
  - (b) facilitate investment in government securities by individual investors.
  - (c) Direct sale of goods and services by government departments
  - (d) Both (a) and (b) are correct
- Q.72) Choose the correct statement from the following
- (a) Money is deemed as something held by the public and therefore only currency held by the public is included in money supply.
  - (b) Money is deemed as something held by the public and therefore inter -bank deposits are included in money supply.
  - (c) Since inter-bank deposits are not held by the public, therefore inter-bank deposits are excluded from the measure of money supply.
  - (d) Both (a) and (c) above.
- Q.73) At any point of time, all markets tend to have the same exchange rate for a given currency due to
- (a) Hedging
  - (b) Speculation
  - (c) Arbitrage
  - (d) Currency futures
- Q.74) The objective of introducing Monopolies and Restrictive Trade Practices Act 1969 was -
- (a) to ensure that the operation of the economic system does not result in the concentration of economic power in hands of a few
  - (b) to provide for the control of monopolies
  - (c) to prohibit monopolistic and restrictive trade practice
  - (d) all the above

- Q.75) Given the following four possibilities, which one will result in an increase in total expenditure of the consumer?
- (a) Demand is unit elastic and price rises
  - (b) Demand is elastic and price rises
  - (c) Demand is inelastic and price falls
  - (d) demand is inelastic and price rises
- Q.76) The supply function is given as  $Q = -100 + 10P$ . Find the elasticity using point method, when price is ` 15.
- (a) 4
  - (b) -3
  - (c) -5
  - (d) 3
- Q.77) The Vertical difference between TVC and TC is equal to :
- (a) Marginal Cost
  - (b) Average variable cost
  - (c) Total fixed Cost
  - (d) None of these.
- Q.78) At the stage when Negative Return sets in :
- (a) MP is negative
  - (b) MP is diminishing
  - (c) Either a or b
  - (d) none of these
- Q.79) In long-run equilibrium, the pure monopolist (as opposed to the perfectly competitive firm) can make pure profits because of
- (a) blocked entry
  - (b) high selling prices
  - (c) low LAC costs
  - (d) advertising.
- Q.80) In the kinked demand curve models, the oligopolists
- (a) recognize their interdependence
  - (b) do not collude
  - (c) tend to keep prices constant
  - (d) all of the above
- Q.81) A purely competitive seller's average revenue curve coincides with
- (a) its marginal revenue curve only
  - (b) its demand curve only
  - (c) both its demand & marginal revenue curves
  - (d) Neither demand nor marginal revenue curve.

- Q.82) Telecom Industry is an example of
- (a) Monopoly
  - (b) Perfect Competition
  - (c) Oligopoly
  - (d) Monopolistic competition
- Q.83) Third degree Price discrimination can be explained through example of
- (a) dumping
  - (b) Charging different Prices for domestic and commerced use
  - (c) Lower Price in ratioing for senior citizen
  - (d) All of the above.
- Q.84) Which aspect of taxation involves normative economics?
- (a) the incidence of (i.e., who actually pays for) the tax
  - (b) the effect of the tax on incentives to work
  - (c) the "fairness" of the tax
  - (d) all of the above.
- Q.85) Oligopolistic industries are characterized by:
- (a) a few dominant firms and substantial barriers to entry.
  - (b) a few large firms and no entry barriers.
  - (c) a large number of small firms and no entry barriers.
  - (d) one dominant firm and low entry barriers.
- Q.86) Which of the following is a limitation of using GDP as a measure of economic well-being?
- (a) It includes only monetary transactions.
  - (b) It does not account for income distribution.
  - (c) It considers both market and non-market activities.
  - (d) It is not affected by inflation.
- Q.87) Theory of Mercantilism propagates:
- (a) Encourage exports and imports
  - (b) Encourage exports and discourage imports
  - (c) Discourage exports and imports
  - (d) Discourage exports and encourage imports
- Q.88) Which of the following represents the total amount of money the government owes to external creditors and domestic lenders?
- (a) National debt
  - (b) Budget surplus
  - (c) Fiscal deficit
  - (d) Revenue deficit
- Q.89) What is the "liquidity trap" in Keynesian theory?
- (a) A situation where interest rates are very high.
  - (b) A situation where interest rates are very low, and savings are hoarded.
  - (c) A situation of hyperinflation
  - (d) A situation of excessive government spending



- Q.90) According to Keynes, what can cause involuntary unemployment in an economy?
- (a) High interest rates
  - (b) Insufficient aggregate demand
  - (c) Government intervention
  - (d) Excessive savings
- Q.91) What is the formula for calculating Gross Domestic Product (GDP) using the expenditure approach?
- (a)  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending}$
  - (b)  $GDP = \text{Consumption} + \text{Investment} + \text{Government Spending} + \text{Net Exports}$
  - (c)  $GDP = \text{Consumption} + \text{Investment}$
  - (d)  $GDP = \text{Consumption} + \text{Net Exports}$
- Q.92) Which of the following is an example of an automatic stabilizer in the budget?
- (a) Discretionary spending
  - (b) Progressive taxation
  - (c) Infrastructure investment
  - (d) Unemployment benefits
- Q.93) The non-debt capital receipts of this country is
- (a) 45.1
  - (b) 16.7
  - (c) 15.8
  - (d) None of the above
- Q.94) Which of the following would illustrate a recognition lag?
- (a) The time required to identify the appropriate policy
  - (b) The time required to identify to pass a legislation
  - (c) The time required to identify the need for a policy change
  - (d) The time required to establish the outcomes of fiscal policy
- Q.95) Under the fractional reserve system
- (a) the money supply is an increasing function of reserve money (or high powered money) and the money multiplier.
  - (b) the money supply is an decreasing function of reserve money (or high powered money) and the money multiplier.
  - (c) the money supply is an increasing function of reserve money (or high powered money) and a decreasing function of money multiplier.
  - (d) none of the above as the determinants of money supply are different
- Q.96) The money multiplier will be large
- (a) for higher currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
  - (b) for constant currency ratio (c), higher required reserve ratio (r) and lower excess reserve ratio (e)
  - (c) for lower currency ratio (c), lower required reserve ratio (r) and lower excess reserve ratio (e)
  - (d) None of the above

- Q.97) Which of the following would be an example of foreign direct investment from Country X?
- (a) A firm in Country X buys bonds issued by a Chinese computer manufacturer.
  - (b) A computer firm in Country X enters into a contract with a Malaysian firm for the latter to make and sell to it processors
  - (c) Mr. Z a citizen of Country X buys a controlling share in an Italian electronics firm
  - (d) None of the above
- Q.98) Which of the following statements is incorrect?
- (a) Direct investments are real investments in factories, assets, land, inventories etc. and involve foreign ownership of production facilities.
  - (b) Foreign portfolio investments involve flow of 'financial capital'.
  - (c) Foreign direct investment (FDI) is not concerned with either manufacture of goods or with provision of services.
  - (d) Portfolio capital moves to a recipient country which has revealed its potential for higher returns and profitability.
- Q.99) Which one of the following is a feature of green revolution -
- (a) use of soil friendly green manure to preserve fertility of soil
  - (b) grow more crops by redistributing land to landless people
  - (c) High yielding varieties of seeds and scientific cultivation
  - (d) Diversification to horticulture
- Q.100) The first wave of liberalization starts in India
- (a) In 1951
  - (b) In 1980's
  - (c) In 1990
  - (d) In 1966

## ANSWERS

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

## NATURE AND SCOPE OF BUSINESS ECONOMICS

### MULTIPLE CHOICE QUESTIONS

1. Find the correct match.
  - a) An enquiry into the nature and causes of the wealth of the nation: A.C. Pigou
  - b) Science which deals with wealth: Alfred Marshall
  - c) Economics is the science, which studies human behavior as a relationship between ends and scarce means which have alternative uses: Robbins
  - d) The range of our enquiry becomes restricted to that part of social welfare that can be brought directly or indirectly into relation with the measuring rod of money: Adam Smith
2. The law of scarcity.
  - a) Does not apply to rich, developed countries
  - b) Applies only to the less developed countries
  - c) Implies that consumers want will be satisfied in a socialistic system
  - d) Implies that consumer's wants will never be completely satisfy
3. Who expressed the view that "Economics is neutral between ends"?
  - a) Robbins
  - b) Marshall
  - c) Pigou
  - d) Adam Smith
4. Which of the following is the best general definition of the study of Economics?
  - a) Inflation and unemployment in a growing economy
  - b) Business decision making under foreign competition
  - c) Individual and social choice in the face of scarcity
  - d) The best way to invest in the stock market
5. What implication(s) does resource scarcity has for the satisfaction of wants?
  - a) Not all wants can be satisfied
  - b) We will never be faced with the need to make choice
  - c) We must develop ways to decrease our individual wants
  - d) The discovery of new natural resources is necessary to increase our ability to satisfy wants
6. Rational decision making requires that\_\_\_\_
  - a) One's choice be arrived at logically and without error
  - b) One's choice be consistent with one's goals
  - c) One's choice never vary
  - d) One makes choice that do not involve trade-offs
7. Which of the following is a normative statement?
  - a) Planned economies allocate resources via government
  - b) Most transitional economies have experienced problem of falling output and rising prices over the past decade
  - c) There is a degree of consumer sovereignty in market economies than planned economies
  - d) Reducing inequality should be a major priority for mixed economies
8. Macroeconomics is also called\_\_\_ economic
  - a) Applied
  - b) Aggregate
  - c) Experimental
  - d) None of the above
9. An example of positive economic analysis would be\_\_\_\_\_
  - a) An analysis of the relationship between the price of food and the quantity purchased
  - b) Determining how much income each person should be guaranteed
  - c) Determining the fair price for food
  - d) Deciding how to distribute the output of the economy

10. Identify the correct statement,
- In deductive method logic proceeds from the particular to the general
  - Microeconomics and macroeconomics are interdependent
  - In a capitalist economy the economic problems are solved by Planning Commission
  - Higher the prices lower is the quantity demanded of a product is a normative statement
11. A study of how increase in the corporate Income tax rate will affect the national unemployment rate is an example of \_\_\_\_\_
- Macroeconomics
  - Descriptive Economics
  - Microeconomics
  - Normative economics
12. Which of the following does not suggest a macro approach for India?
- Determining the GNP of India
  - Finding the causes of failure of X and CO
  - Identifying the causes of inflation in India
  - Analyses the causes of failure of industry in providing large-scale employment
13. Economic goods are considered scarce resources because they \_\_\_\_\_
- Cannot be increased in quantity
  - Do not exist in adequate quantity to satisfy social needs
  - Are of primary important in satisfying social needs
  - Are limited to man made goods
14. From the national point of view which of the following indicates micro approach?
- Per capital income of India
  - Under employment in agricultural sector
  - Lock out in TELCO
  - Total saving in India
15. In a free market economy, the allocation of resources is determined by ne
- Votes taken by consumers
  - A central planning authority
  - By consumer preference
  - The level of Profit of firms
16. A capitalist economy uses \_\_\_\_\_ as the principal means of allocation resources.
- Demand
  - Supply
  - Efficiency
  - Prices
17. In a free market economy, when consumers increase their purchase of a good and the level of \_\_\_\_\_ exceeds \_\_\_\_\_ then prices tend to rise.
- Demand, Supply
  - Supply, Demand
  - Prices, demand
  - Profit, Supply
18. Which of the following would be considered a disadvantage of allocating resources using a market system?
- Income will tend to be unevenly distributed
  - Significant unemployment may occur
  - It cannot prevent the wastage of scare economic resources
  - Profit will tend to be low
19. In a mixed economy \_\_\_\_\_
- All economic decisions are taken by the central authority
  - All economic decisions are taken by private entrepreneurs
  - Economic decisions are partly taken by the state and partly by the private entrepreneur
  - None of the above
20. What is one of the future consequences of an increase in the current level of consumption in India?
- Slower economic growth in the future
  - Greater economic growth in the future
  - No change in our economic growth rate
  - Greater capital accumulation in the future

21. Capital intensive technique would get chosen in a\_\_\_\_\_
- Labor surplus economy
  - Capital Surplus economy
  - Developed economy
  - Developing Economy
22. Labor intensive technique would get chosen in a\_\_\_\_\_
- Labor Surplus economy
  - Capital surplus economy
  - Developed Economy
  - Developing economy
23. Ram: My corn harvest this year is poor. Krishna: Don't worry. Price increases will compensate for the fall in quantity supplied. Vinod: Climate affects crop yields. Some years are bad, others are good. Madhur: The Government ought to guarantee that our income will not fall In this conversation, the normative statement is made by\_\_\_\_\_
- Ram
  - Krishna
  - Vinod
  - Madhu
24. Consider the following and decide which, if any, economy is without scarcity:
- The pre-independent Indian economy, where most people were farmers.
  - A mythical economy where everybody is a billionaire.
  - Any economy where income is distributed equally among its people.
  - None of the above.
25. Which of the following is not a Micro economies subject matter?
- The price of mangoes.
  - The cost of producing a fire truck for the fire department of Delhi, India.
  - The quantity of mangoes produced for the mangoes market.
  - The national economy's annual rate of growth.
26. Which of the following is not one of the four central questions that the study of economics is supposed to answer?
- Who produces what?
  - When are goods produced?
  - Who consumes what?
  - How are goods produced?
27. Larger production of\_\_\_\_\_ would lead to higher production in future.
- Consumer goods
  - Capital goods
  - Agricultural goods
  - Public goods
28. The branch of economic theory that deals with the problem of allocation of resources is
- Micro-Economic theory.
  - Macro-economic theory.
  - Econometrics.
  - None of the above.
29. In an economy people have the freedom to buy or not buy the goods offered in the market place and this freedom to choose what they buy dictates what producer will ultimately produce. The key term defining this condition is\_\_\_\_\_
- Socialism
  - Capitalism
  - Mixed Economy
  - Communism
30. The term 'Economics' owes its origin to the Greek word\_\_\_\_\_
- Aikonomia
  - Wikonomia
  - Oikonomia
  - None of the above
31. Oikonomia means \_\_\_\_\_
- Industry
  - Household
  - Service
  - None of these
32. In which economics system all the means of

- production are owned and controlled by private sector?
- Socialism
  - Capitalism
  - Mixed Economy
  - Communism
33. Economics may be defined as the science that explains\_\_\_\_\_.
- The choice that we make as we cope with scarcity
  - The decisions made by politicians
  - The decisions made by households
  - All human behavior
34. Scarcity is a situation in which
- Wants exceed the resources available to satisfy them
  - Something is being wasted
  - People are poor
  - d) None of the above
35. When productivity increase,\_\_\_\_\_
- Prices rise
  - Living standards improve
  - There are fewer good jobs
  - Living standards deteriorate
36. Macroeconomics is the study of\_\_\_\_\_
- All aspects of scarcity
  - The national economy and the global economy as a whole
  - Big business
  - The decision of individual business and people
37. The task of economic science is to\_\_\_\_\_
- Save the earth from the overuse of natural resources
  - Help us to understand how the economics world works
  - Tell us what is good for us
  - Make more choice about things like drugs
38. Socialist economy is a
- Planned Economy
  - Mixed Economy
  - Profit oriented Economy
  - None of these
39. Freedom of choice is the advantage of\_\_\_\_\_
- Socialism
  - Capitalism
  - Mixed Economy
  - Communism
40. Which of the following is incorrect? baa)
- The central problem in economics is that of allocating scarce resources in such a manner that society's unlimited needs are satisfied as well as possible
  - In mixed economy the government and the private sector interact in solving the basic economic questions
  - Microeconomics best describes the study of the behavior of individual agents
  - An important theme in economics is that market systems are better than command (socialistic) economies
41. Which of the following is correct?
- Normative economics is not concerned with value judgment
  - A market is a process that reconciles consumer decision, production decision and labor decision
  - A mixed economy has a certain level of government intervention in the economy along with private sector ownership of the economy
  - (b) and (c)
42. Indian economy is mixed economy Because\_\_\_\_\_
- Agriculture and industry have both simultaneously developed in India
  - Agriculture and industry have both team a developed in the public sector
  - Private ownership and public ownership over means of production co-exist
  - Any of the above
43. Price theory is an important constituent of economics.

- a) Micro  
b) Macro  
c) Development  
d) Welfare
44. Choice is created by the  
a) Abundance of resources  
b) Urgency of needs  
c) Non availability of resources  
d) Scarcity of resource
45. Under a free economy, prices are \_\_\_\_\_  
a) Regulated  
b) Determined through free interplay of demand and supply  
c) Party regulated  
d) None of these
46. Which of the following falls under microeconomics?  
a) National income  
b) General price level  
c) Factor pricing  
d) National saving and investment
47. Economics is the study of iw phols  
a) How society manages its unlimited resources  
b) How to reduce our wants until we are satisfied  
c) How society manages its scarce resources  
d) How to fully satisfy our unlimited wants
48. The meaning of the word 'economic' is most closely connected with the word \_\_\_\_\_  
a) Extravagant  
b) Scarce  
c) Unlimited  
d) Restricted
49. In Economics 'the central economic problem' means  
a) Consumers do not have as much money as they would wish  
b) There will always be a certain level of unemployment
- Resources are not always allocated in an optimum way  
Analyzing distribution of coal in the country
50. Which of the following suggests a micro approach for India?  
a) Identifying the causes of large-scale unemployment in Indian sat  
b) Input output analysis for the economy  
c) Finding causes of high turnover in ABC Ltd.  
d) Analysing distribution of coal in the country
51. Which of the following can be regarded as to law of economics?  
a) Ceteris Paribus, if the price of a wo commodity rises the quantity demanded of it will fall  
b) Higher the income, greater is the expenditure  
c) Taxes have no relation with the benefits  
d) None of the above
52. State whether Economics is \_\_\_\_\_  
a) A positive science only  
b) Neither a positive nor normative science  
c) A science but not art  
d) A science or an art depending on who uses Economics and for what purpose
53. State which of the following refers to the macro approach from a national angle.  
a) Unemployment among the educated people in India  
b) Profitability ratio of Bharat Heavy Electricals Limited  
c) Turnover ratio in Telco  
d) None of the above
54. \_\_\_\_\_ Economics explains economic phenomena according to their causes and effects.  
a) Positive  
b) Normative



- c) Empirical  
d) Applied
55. State interference is maximum in \_\_\_\_\_  
a) Mixed economy  
b) Socialistic Economy  
c) Capitalistic economy  
d) None of the above
56. Every economy is characterized by  
a) Unlimited wants & needs  
b) No energy resources  
c) Unlimited material resources  
d) Abundant productive labour
57. Which of the following statement is not true about positive & normative science?  
a) Positive economics says about the ends  
b) Positive economics is not concerned with moral judgments  
c) Positive economics is concerned with moral judgment  
d) A normative statement involves ethical values.
58. The norms of behaviors which satisfy the requirements of social rationality of economic activity are established by  
a) Positive economics  
b) Normative economics  
c) Business Economics  
d) Mathematical economics
59. Eliminating the scarcity problem Would \_\_\_\_\_.  
a) Eliminate the need to study economics  
b) Increase the need to study economics  
c) Divert resources activity to education from government  
d) Eliminate the possibility of "free lunch"
60. The U.S. economy which uses a combination of markets and government to allocate resources is but considered  
a) Socialism  
b) Market Based Capitalism  
c) Communism  
d) Pure market economy
61. Economists who are concerned about the behavior of individual household firms and industries are studying \_\_\_\_\_.  
a) Microeconomics  
b) Macroeconomics  
c) Nano economics  
d) Noneconomic
62. In which type of economics system has the government no control over price fluctuations?  
a) Market economy  
b) Command economy  
c) Mixed economy  
d) Regulated economy
63. A normative economics statement is \_\_\_\_\_.  
a) The federal minimum wages should be raised to \$4.50 per hour  
b) Economics is a social science that studies human behavior  
c) Economics is not a social science that studies human behavior  
d) The United State spends a \$1 trillion on national defense
64. Which one of the following is NOT a feature of mixed economy?  
a) Market forces deciding investment and Consumption  
b) Reservation of certain areas for public sector investment  
c) Emphasis on social justice  
d) Strong anti-monopoly legislation
65. Mixed economy means  
a) Co- existence of small and large industries  
b) Promoting both agriculture and industries the economy  
c) Co- existence of public and private sector.  
d) Co-existence of rich and poor
66. In which type of economy can each producer allocate his resources based on the demand?  
a) Market Economy

- b) Command Economy
  - c) Mixed Economy
  - d) Regulated economy
67. Opportunity cost are a result of \_\_\_\_\_.
- a) Scarcity
  - b) Overproduction
  - c) Technology obsolescence
  - d) Abundance of resources
68. The aim of an entrepreneur is to earn as much profit as possible. The entrepreneur belongs to
- a) Socialistic economy
  - b) Capitalistic Economy
  - c) Mixed Economy
  - d) All of above
69. Which type of economy gives rise to the most efficient allocation of resources and capital in the standard macroeconomics framework?
- a) Free market economy
  - b) Command market Economy
  - c) Controlled market economy
  - d) Regulated market economy
70. In which type of economy do consumers and producers make their choice base on the market forces of demand and supply?
- a) Open economy
  - b) Controlled economy
  - c) Command economy
  - d) Market Economy
71. Monopoly of state on production and Investment is feature of
- a) Mixed economy
  - b) Socialistic economy
  - c) Capitalistic economy
  - d) None of above
72. Right of private property is found in \_\_\_\_\_
- a) Socialism
  - b) Capitalism
  - c) Mixed economy
  - d) None of the above
73. \_\_\_\_\_ is also known as price theory.
- a) Microeconomics
  - b) Macroeconomics
  - c) Both of above
  - d) None of the above
74. Which of the following statements regarding market economy is not true?
- a) Price plays a major role in a market economy
  - b) The government controls production and distribution of goods
  - c) Consumers choose the goods they want
  - d) Efficiency is achieved through the profit motive
75. Microeconomics is related to \_\_\_\_\_
- a) Demand
  - b) Supply
  - c) Price mechanism
  - d) All of the above

## ANSWER KEY

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

**1. Demand means**

- a) Desire
- b) Purchasing ability
- c) Desire with purchasing ability & willingness
- d) None of these

**2. For a want to become a demand, it must be backed by the**

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

**3. Demand for commodity refers to**

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

**4. At which of the points given below will the price elasticity of demand be equal to one?**

- a) Where average revenue equals zero
- b) Where marginal revenue equals 0
- c) At the mid-point of the demand curve between its intersection with the x and y- axes
- d) Where marginal cost equals marginal revenue

**5. Usually, the demand for necessities is**

- a) Highly elastic
- b) Highly inelastic
- c) Slightly elastic
- d) Slightly inelastic

**6. What type of relation exists between the price and quantity demanded**

- a) Direct
- b) Inverse
- c) Positive
- d) Both a & b

**7. Contraction of demand is the result of:**

- a) Decrease in the number of consumers
- b) Increase in the price of the goods concerned
- c) Increases in the price of other good
- d) Decrease in the income purchaser

**8. The Law of Demand considers constancy of**

- a) Tastes and preferences
- b) Income of consumer
- c) Price of related goods
- d) All are true

**9. If an increase in real income, ceteris paribus, causes a reduction in the demand for potatoes and a rise in the demand for meat, then which of the following statement is correct?**

- a) Potatoes is an inferior good
- b) The income elasticity of demand for a potato is positive
- c) The income elasticity of demand for a meat is negative

d) All of the above

**10. Upward or downward shift of the demand curve shows**

- a) Change in quantity
- b) Change in price
- c) Change in demand
- d) Change in supply

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

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

**12. Demand depends on,**

- a) Price of goods and related commodities
- b) Size of population
- c) Income, tastes, and other factors
- d) All are true

**13. The concept of elasticity of demand was developed by**

- a) Alfred Marshall
- b) Edwin Camon
- c) Paul Samuelson
- d) Frederic Benham

**14. While drawing the demand curve the change takes place in which of the following factors**

- a) Supply of the product
- b) Quantity of the product
- c) Price of the product
- d) Technology used in offering the product

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

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

**16. The quantity demanded of Pepsi has decreased. The best explanation for this is that**

- a) The price of Coca Cola has increased.
- b) Pepsi's advertising is not as effective as in the past.
- c) The price of Pepsi has increased
- d) Pepsi consumers had an increase in income

**17. If the income elasticity is greater than one the commodity is**

- a) Necessity
- b) Luxury
- c) Inferior goods
- d) None of these

**18. The Demand curve slopes**

- a) Downward from left to margin

- b) Upward from left to margin
- c) Upward from right to left
- d) Purchasing power parity

**19. Which of the following pairs of goods is an example of substitutes?**

- a) Tea and sugar
- b) Tea and coffee
- c) Pen and ink
- d) Shirt & Trouser

**20. Which of the following will not cause a shift in the demand curve for compact discs?**

- a) A change in income
- b) A change in wealth
- c) A change in the price of pre-recorded cassettes
- d) A change in the price of compact discs

**21. When the quantity demanded changes by a larger percentage than does price, elasticity is termed as**

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

**22. In normal circumstances, if the government increases the tax on any product, the demand for the product - in the short run**

- a) Increases
- b) Decreases
- c) Remains unchanged
- d) Tax has nothing to do with the demand

**23. Identify the factor which generally keeps the price-elasticity of demand for a good low**

- a) Variety of uses of that good
- b) Its Low prices
- c) Close substitutes for those goods
- d) High proportion of the consumer's income

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

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

**25. An increase in price will result in an increase in total revenue, if**

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

**26. In the case of there is an inverse relationship between income and demand for a product.**

- a) Substitute goods
- b) Complementary Goods
- c) Giffen Goods
- d) None of the above

**27. The Law of Demand, assuming other things to remain constant, establishes the relationship between**

- a) Income of the consumer and the quantity of a good demanded by him
- b) Price of a good and the quantity demanded
- c) Price of good and the demand for its substitutes
- d) Quantity demanded of a good and the price-elasticity of demand for a good low

**28. Market demand is**

- I) Horizontal summation of individual demand in the market
  - II) Vertical summation of individual demand in the market
  - III) Lateral summation of individual demand in the market
  - IV) Multiplication of individual demand in the market with their price
- a) Only
  - b) II & III only
  - c) I, II, & III only
  - d) I and III only

**29. Which of the following statement is not true about individual demand?**

- a) The decision to purchase is always influenced by the income constraint
- b) Selection of products and services are based on the opportunity cost
- c) Consumers measure their opportunity cost in terms of the price they pay for the products and services they forgo
- d) The decision to purchase is never influenced or concerned with income constraint

**30. Which of the following statement regarding elasticity of demand is true?**

- a) Elasticity can be positive or negative
- b) Elasticity always has a negative value
- c) Elasticity always has a positive value
- d) Elasticity can never be zero

**31. The law of demand is the one which**

- a) Can be completely discarded
- b) Has numerous exemptions and therefore not helpful
- c) Cannot be verified and therefore hounrealisticing
- d) Is of fundamental importance and leads to broad conclusions.

**32. The Engel curve for a Giffen good is generally**

- a) Positively sloped
- b) Negatively sloped to violate-con
- c) A straight line parallel to X axis
- d) A straight line parallel to Y axis

**ANSWER KEY**

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



## UNIT 2: THEORY OF CONSUMER BEHAVIOUR

### MULTIPLE CHOICE QUESTIONS

**1. If both the commodities are bad, the IC will be**

- a) Convex to origin and downward sloping
- b) Concave to origin and downward sloping
- c) Convex to origin and upward sloping
- d) Concave to origin and upward sloping

**2. The law of Diminishing Marginal Utility states that the more a consumer consumes a product, he derives additional consumption.**

- a) Equal Utility
- b) Higher Utility
- c) Lesser Utility
- d) Infinite Utility

**3. Which of the following utility measurement approaches is based on the Marshallian school of thought**

- a) Cardinal utility approaches
- b) Ordinal utility
- c) Independence variable approach
- d) Both a & b

**4. A higher IC implies**

- a) Same utility
- b) Lesser level of utility
- c) Higher level of utility
- d) None of these

**5. Which of the following laws states that the more a consumer consumes a product, the lesser the utility he derives from the additional consumption?**

- a) Law of Equal - Marginal Utility
- b) Law of Ordinal Utility
- c) Law of Cardinal Utility
- d) Law of Diminishing Marginal Utility

**6. Which of the following statement regarding utility is not true?**

- a) Utility is the psychological satisfaction that a customer derives by using a particular product
- b) It helps to understand how consumers make choice
- c) Utility is always measurable
- d) It is purely subjective issue

**7. If money income of the consumer increases, other things being constant, the budget line will**

- a) Shift rightwards
- b) Shift leftwards
- c) Shift rightwards in a parallel way
- d) Shift leftwards in a parallel way.

**8. The Law of Diminishing Marginal Utility states that the more a consumer consume a product, he derives lower utility from**

- a) Additional consumption
- b) Lower consumption
- c) No extra consumption
- d) Infinite consumption.

**9. Which of the following utility approaches suggest that utility can be measured and**

**quantified?**

- a) Cardinal
- b) Ordinal
- c) Both cardinal and ordinal
- d) Neither of the approaches makes any such suggestion

**10. Who is the main exponent of Marginal Utility analysis?**

- a) Paul Samuelson
- b) Hicks
- c) Keynes
- d) Marshall

**11. In case of necessities, consumer surplus is?**

- a) Infinite
- b) Zero
- c) Equal to one
- d) More than one

**12. In which utility measuring approaches, is utility ranked in order of preference, but not to measured and quantified?**

- a) Cardinal
- b) Ordinal
- c) Independent variable approaches
- d) Both cardinal and ordinal

**13. The sufficient condition regarding IC curves is**

- a) ICs are concave to origin
- b) ICs are downward sloping
- c) ICs are convex to origin.
- d) None of these.

**14. After reaching a saturation consumption of additional units of the commodity cause**

- a) Total Utility to fall and Marginal Utility to increase
- b) Total Utility & Marginal Utility both to increase
- c) Total utility to fall and Marginal Utility to become negative
- d) Total Utility to become negative and Marginal Utility to fall

**15. Which of the statement regarding ordinal utility is true?**

- a) Utility can be measured, but cannot be ranked in order of preference
- b) Utility can be measured, and can also be of Jug ranked in order of preference
- c) Utility can be neither measured nor be oms ranked in order of preference 2920
- d) Utility cannot be measured, but can be ranked in order of preference

**16. Utility is defined by**

- a) Hicks
- b) Allen
- c) Marshall
- d) Samuelson

**17. Marginal Utility of a commodity depends on its quantity and is**

- a) Inversely proportional to its quantity
- b) Not proportional to its quantity
- c) Independent of its quantity
- d) None of the above

18. \_\_\_\_\_ of a commodity is the additional utility derived by a consumer, by consuming one more unit of that commodity
- Total Utility
  - Marginal Utility
  - Average Utility
  - Ordinal Utility
19. Cardinal theory of utility was proposed by
- Hicks
  - Allen
  - Marshall
  - Samuelson
20. Which of the following is an assumption of the Law of Diminishing Marginal Utility?
- Perfect Competition
  - Continuous Consumption
  - Constant Demand
  - Ordinal Approach to Utility
21. Which of the following laws are says: "If a person has product which can be put to several uses, he will distribute it among these uses in such a way that it has the same marginal utility?"
- Law of Equi-marginal utility
  - Law of diminishing marginal utility
  - Law of total utility
  - Law of diminishing marginal return
22. The ratio of MU of two goods is
- MRS
  - MRT
  - Cannot be said
  - None of these
23. Which of the following is an assumption of Law of the Law of Diminishing Marginal Utility?
- Perfect Competition
  - Cardinal Approach to Utility
  - Constant Demand to
  - Increasing Marginal Utility of Money.
24. If the value of  $MUX / Px$  is more than  $MUy/Py$ , the consumer
- Will increase in the consumption of goods X and reduce good Y
  - Will reduce the consumption of good X and increase in good Y
  - Will consume less of good X and good Y
  - Will consume more good X and Y
25. The law of equal marginal utility considers the price of money as
- Zero
  - Less than one
  - More than one
  - One
26. Which of the following is an assumption of law of the Law of Diminishing Marginal Utility?
- No effect of Consumer's Personal Tastes and preferences
  - Cardinal Approach to Utility
  - Different Units consumed should be identical in all respects
  - All the above.

- 27. Shows various combination of two products that give same amount of satisfaction**
- Iso cost Curve
  - Indifference Curve
  - Marginal Utility Curve
  - Iso quant
- 28. Consumer surplus means**
- The area inside the budget line
  - The area between the average revenue and marginal revenue curves
  - The difference between the maximum amount a person is willing to pay for a good and its market price
  - None of the above
- 29. The Law of Diminishing Marginal Utility will not hold good if the income of the consumer**
- Increases
  - Decreases
  - Remains constant
  - Both (a) and (b)
- 30. Which of the following statements regarding indifference curve is not true**
- An indifference curves have a negative slope
  - Indifference curve slopes downward to the right
  - Two indifference curves intersect each other at equilibrium
  - Higher level of indifference curve shows higher level of utility.
- 31. Utility may be defined as**
- Power of commodity to satisfy wants
  - Usefulness of a commodity
  - Desire for a commodity
  - None of the above.
- 33. Indicates the change in consumers purchasing habits, depending on the price variation of a particular product.**
- Differs from person-to-person
  - Differs from time-to-time
  - Differs from product-to-product
  - All of the above are correct.
- 34. Which of the following statements regarding Utility is not true?**
- Utility is the psychological satisfaction that a consumer derives by using a particular product
  - Utility helps to understand how consumers make choices
  - Utility is always measurable
  - utility is a purely subjective issue
- 35. Utility is applicable**
- Only for socially desirable goods (food, etc.)
  - Only for harmful goods like Liquor, Cigarettes, etc.
  - Both (a) and (b)
  - Neither (a) nor (b)
- 36. Utility is ethically neutral, this statement is**
- True
  - False
  - Partially True
  - Nothing can be said about Utility.
- 37. Under Marginal Utility analysis, Utility is assumed to be a**

- a) Cardinal concept  
 b) ordinal concept  
 c) Indeterminate concept  
 d) Infinite concept
- 38. Utility can be measured and quantified under**  
 a) Cardinal Approach only  
 b) Ordinal Approach only  
 c) Both (a) and (b)  
 d) Neither (a) nor (b)
- 39. A movement along given indifference curve is known as**  
 a) Income effect  
 b) price effect  
 c) substitution effect  
 d) none of these
- 40. Which of these is not a characteristic of an indifference curve**  
 a) Cannot intersect each other  
 b) Convex to origin  
 c) U Shaped  
 d) Negatively Sloped
- 41. The point at which the total utility derived by a consumer is the maximum is called**  
 a) Climax  
 b) Point of saturation  
 c) Top hill  
 d) Maxima point
- 42. The property of a goods or services that satisfies a want or need of a consumer is called**  
 a) Value  
 b) Utility  
 c) Value for money  
 d) Worth
- 43. Indifference curves were to concave to the origin it would implies**  
 a) Constant marginal rate of substitution  
 b) Increasing marginal rate of substitution  
 c) Increasing returns to scale  
 d) No

**ANSWER KEY**

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

1. **Production is defined as**
  - a) Change of inputs to output
  - b) Creation or addition of utility
  - c) Both (a) & (b)
  - d) Neither (a) or (b)
  
2. **In Economics, refers to any economic activity, which is directed towards satisfaction of human wants**
  - a) Production
  - b) Distribution
  - c) Consumption
  - d) Economics
  
3. **Which of the following statements regarding production function is false?**
  - a) It just shows the relationship between output and input
  - b) It does not provide any information on the least-cost capital labour combination
  - c) It reveals the output that yields the maximum profit
  - d) Both (a) and (c)
  
4. **Which of the following is considered production in economics?**
  - a) Tilling soil
  - b) Singing a song to before friend
  - c) Preventing a child from falling into a manhole on the road
  - d) Painting a picture for purpose
  
5. **The labour supply curve is**
  - a) Upward rising
  - b) Downward sloping
  - c) Backward bending
  - d) None of these
  
6. **At the point of inflexion, the Marginal product is**
  - a) Increasing
  - b) Decreasing
  - c) Maximum
  - d) Negative

7. \_\_\_\_\_ shows the overall output generated at a given level of input.
- a) Cost function
  - b) Production function
  - c) Marginal rate of technical Substitution
  - d) Iso cost
8. **Identify the correct statement:**
- a) The average product is at its maximum when marginal product is equal to average product
  - b) The law of increasing returns to scale relates to the effect of change in factor proportion
  - c) Economics of scale arises only because of individual of factor proportion
  - d) Internal economics of scale can accrue only to the exporting sector
9. **In the short run-**
- a) labour is fixed
  - b) Capital is fixed
  - c) Both labour & capital is fixed
  - d) None of the labour & capital is fixed
10. **Which of the following statement is true? Production can be defined as**
- a) Creation or addition of utility
  - b) Conversion of raw material into finished goods
  - c) An activity of making something immaterial
  - d) All of these
11. **In which stage of production are the average product and marginal product above zero (positive)?**
- a) In the stage of constant returns
  - b) In the stage of increasing returns
  - c) In the stage of decreasing returns
  - d) Both (a) and (c)
12. **Which of the following is not a characteristic of land?**
- a) Its supply for the economy is limited
  - b) It is immobile
  - c) Its usefulness depends on human efforts
  - d) It is produced by our forefather
13. **The slope of the total product curve is given when AP is negative**
- a) Average product b) when MP is decreasing

- a) Average product
- b) marginal product
- c) Average and marginal product
- d) both A and B

**14. Isoquants are equal to except:**

- a) Product Lines
- b) Total Utility Lines
- c) Cost Lines
- d) Revenue Lines

**15. During the stage of decreasing returns**

- a) AP is negative
- b) MP is decreasing
- c) MP is negative
- d) Both (a) and (b)

**16. Which of the following statement is true?**

- a) Accumulation of capital depends solely on income
- b) Savings can also be affected by the state
- c) External economics go with size internal economics with location and
- d) The supply curve of labour is an upward slopping curve

**17. The law of variable proportion considers -**

- a) Las variable
- b) Both K & L as variable
- c) No such assumption is needed
- d) None of these

**18. Supply of land is\_\_\_\_\_**

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

**19. Which of the following stages of production, is known as stage of negative returns?**

- a) When AP is negative
- b) When MP is decreasing
- c) When MP is negative



d) Both (a) and (b)

**20. In the production of wheat, all of the following are variable factor that are used by the farmer except:**

a) The seed and fertilizer when the crop is beret planted

b) The fields that has been cleared of trees and in which the crop is planted

c) The tractor used by the farmer in planting and cultivating not only wheat by also corn and barley

d) The number of hours that the farmer in planting and cultivating the wheat fields

**21. The law of variable proportions considers -**

a) Technology as fixed

b) Technology as variable

c) No such assumption is needed

d) None of these

**22. Production is a l/an\_\_\_\_\_ activity**

a) Charitable

b) Beneficial

c) Economic

d) Successful

**23. For a cobb Douglas production function, the IQ's so derived will be**

a) Concave

b) Linear

c). Convex

d) None of these

**24. In which stages of production would a rational entrepreneur like to operate**

a) Stage 1 Where MP is maximum

b) Stage 2 where both MP and AP are decreasing, but both are positive

c) Stage 3 where MP is negative

d) Either stage 2 or 3

**25. The marginal product of a variable input is best described as**

a) The product divided by the number of units of variable input 1800

b) The additional output resulting from a one unit increase in the variable input

c) The additional output resulting from a one increase in both variable and fixed inputs

d) The ratio of the amount of the variable input that is being used to the amount of the fixed

input that is being used

- 26. When marginal product is zero, then total product is**
- a) Maximum
  - b) Increasing
  - c) Decreasing
  - d) Negative
- 27. Production does not consist of which of the following activities?**
- a) Changing the form of natural resources
  - b) Changing the place of the resources
  - c) Both of the above
  - d) None of the above
- 28. Which of the following activities cannot take place in the short run**
- a) Changing the quantity of labour employed
  - b) Changing the input combination Regular maintains of that plant.
  - c) To ensure efficient production
  - d) Installation of an additional plant to meet requirement
- 29. Diminishing marginal returns implies**
- a) Decreasing average variable costs
  - b) Decreasing marginal cost costs
  - c) Increasing marginal costs
  - d) Decreasing average fixed cost
- 30. The law of variable proportions subdivides the law into**
- a) 9 stages
  - b) 4 stages
  - c) 3 stages
  - d) 5 stages
- 31. Which of the following is absolutely correct?**
- a) The law of diminishing returns depends on the assumption that the state of technical knowledge is unchanged
  - b) The law of increasing returns depends on the assumption that the state of technical knowledge is unchanged
  - c) The law of constant returns depends on the condition that the state of technical knowledge is unchanged
  - d) The law of diminishing returns depends on the assumption that total output is constant

**32. Which of the following statements is 100 incorrect?**

- a) Land is free gift of nature
- b) Land is passive factor of production
- c) The quantity of land is unlimited To
- d) Modern economics described the concept of 'land element'

**33. Which of these is not a characteristics of Labour?**

- a) Perishable resource
- b) Immobility
- c) Different productivity
- d) Inseparable for laborer

**34. MP is the slope of \_\_\_\_\_**

- a) TP
- b) AP
- c) Both
- d)None

**35. The opportunity cost of current consumption is**

- a) Lack of capital formation for future
- b) Greater investment
- c) Full employment
- d) Deflation

**36. Marginal cost is defined as**

- a) Change in total cost due to addition of one unit
- b) Total cost divided by total output
- c) Total cost divided by additional output
- d) Increase in cost divided by increase In output

**37. Which of activity:**

- a) Production
- b) Exchange ort
- c) Consumption
- d) All of the above

**38. Which of these is not land in economics**

- a) Thermal power project at Singrauli

- b) Mango orchard of Malaybad in Uttar Pradesh
- c) Fish reserves of Arabian sea
- d) Tea Forest of Assam gen

**39. Which of these would be classified as capital in economics**

- a) Metro Rail network
- b) Bhakra Nangal Dam
- c) Underground gas pipe line network 21
- d) all of above

**40. Production function is-**

- a) Purely a technical relationship between cost and revenue.
- b) Purely an economic relationship between input and output.
- c) Both technical and economic relationship between input and output
- d) None of the above.

**41. Cob Douglas Function given by  $Q = KL^aC^b$**

- a) If  $a + \beta > 1$ , increasing returns
- b) If  $a + \beta > 1$ , increasing returns to scale
- c) If  $a + B < 1$ , diminishing returns
- d) If  $a + B = 1$ , diminishing returns to scale

**Answer key**

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

**UNIT-2: THEORY OF COST**  
**MULTIPLE CHOICE QUESTIONS**

1. Opportunity cost is
  - a) Direct Cost
  - b) Total Cost
  - c) Accounting Cost
  - d) Cost of forgone opportunity
2. Cost analysis is the study of behaviour of \_\_\_\_\_, in relation to one or more production criteria
  - a) Prices & Revenue
  - b) Profits
  - c) Costs
  - d) Output Quantity
3. An entrepreneur who manages his firms must forgo his salary, which he could have earned if he had worked else where the forgone cost is known as \_\_\_\_\_
  - a) Implicit Cost
  - b) Explicit Cost
  - c) Hidden cost
  - d) Actual Cost
4. The various concepts of returns to scale can be used to explain
  - a) IC
  - b) IQ
  - c) Average fixed cost
  - d) Average cost curve
5. When shape of Average cost curve is upward, marginal cost
  - a) Must be decreasing
  - b) Must be Constant
  - c) Must be rising
  - d) Any of these
6. Which of the following curves never touch any axis but is downward?
  - a) Marginal Cost Curve
  - b) Total Cost Curve
  - c) Average Fixed Cost Curve
  - d) Average Variable Cost Curve
7. In the short run, there are
  - a) Fixed and variable cost
  - b) Only fixed cost
  - c) Only Variable cost
  - d) None of these
8. For Cost Analysis purpose, the production criteria may be-
  - a) Quantity of output
  - b) Scale of operation
  - c) Prices of Factors of production
  - d) All of the above
9. Which of the following cost is not included in the books of account?
  - a) Explicit Cost
  - b) Manufacturing cost
  - c) Taxes
  - d) Implicit cost
10. If there is no production in the short run, TC will be
  - a) Zero
  - b) Positive

c) Both a & b

d) None of these

11. Average revenue as curve is also known as \_\_\_\_\_

a) Profit Curve

b) Demand Curve

c) Supply Curve

d) Average Cost Curve

12. \_\_\_\_\_ can be defined as the cost that involves actual payment to other parties

a) Implicit Cost

b) Explicit Cost

c) Hidden Cost

d) Opportunity cost

13. In the short run TC starts from

a) Origin

b) A positive vertical intercept

c) A positive horizontal intercept

d) None of these.

14. \_\_\_\_\_ Include all payment paid to factors of production and opportunity cost

a) Implicit Cost

b) Explicit Cost

c) Economic Cost

d) Accounting Cost

15. AFC curve is \_\_\_\_\_

a) Convex & downward sloping

b) Concave & downward sloping

c) Convex & upward rising

d) Concave & upward rising

16. Which of the following is an example of an economic cost?

a) Interest paid to the bank on the short-term loan taken.

b) Cost incurred on the purchase of raw materials.

c) Wages paid to labours

d) All of the above

17. Cost Analysis is concerned with \_\_\_\_\_ of production

a) Financial aspect

b) Physical aspect

c) Either a & b

d) Neither a & b

18. The AFC curve \_\_\_\_\_

a) Touches the horizontal axis

b) Touches the vertical axis

c) Touches the both horizontal vertical axis



- b) Incremental Cost is a subset of marginal cost
  - c) Managerial Cost is a subset of sunk cost
  - d) Sunk Cost is a subset of incremental cost
27. MC is generally
- a) U-Shaped
  - b) Concave
  - c) Convex
  - d) Concavo-Convex
28. In a cost function, the Total cost or cost per unit is a
- a) Dependent Variable
  - b) Independent Variable
  - c) Either a or b
  - d) Neither a nor b
29. Which of the following statement is best described as sunk cost?
- a) Those costs which are incurred in the past that have to be incurred in the future as result of a contractual agreement
  - b) The loss incurred by the firm as result of bankruptcy of one of its creditors
  - c) The loss incurred by the firm as result of the fire that broke into one of the firms godown
  - d) Setting off the losses that the firm incurred in the previous years
30. When the output of a firm increases in the short run, its average fixed cost
- a) Increases
  - b) Decreases
  - c) Remains Constant
  - d) First Decline and then rises
31. Breakeven point for a firm occurs where-
- a) Total revenue > total cost .
  - b) Total revenue < total cost
  - c) Total revenue = total cost
  - d) None of the above
32. A firm total cost is not dependent upon which of the following
- a) Maximum retail price of the final product.
  - b) Taxes
  - c) Input output ratio
  - d) Cost of inputs
33. Private cost is the cost incurred by the \_\_\_\_\_
- a) The Society



- b) Industry /firm
- c) Government
- d) NGO'S

34. Which of these is fixed cost?

- a) Piece rate worker
- b) Raw Material
- c) Factory insurance
- d) Power a fuel

35. Marginal revenue curve moves \_\_\_\_ and marginal cost curve moves \_\_\_\_\_

- a) downward, downward
- b) downward, upward
- c) upward, upward
- d) Downward, remains same.

36. Total cost is 5000, fixed cost is 2000, 500 units are produced, what is variable cost per unit?

- a) 6
- b) 7
- c) 5
- d) 4

**ANSWER KEY**

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

**PRICE - OUTPUT DETERMINATION UNDER DIFFERENT MARKET FORMS**  
**MULTIPLE CHOICE QUESTIONS**

- A competitive firm in the short run incur losses. The firm continues production if
  - $P > AVC$
  - $P = AVC$
  - $P < AVC$
  - $P \geq AVC$
- Under monopolistic competition the cross elasticity of demand for the product of a single firm would be
  - Infinite
  - Highly Elastic
  - Highly Inelastic
  - Zero
- In the table below what will be equilibrium market price?

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

- Rs.2
  - Rs.3
  - Rs.4
  - Rs.5
- The sum of all MR values gives us \_\_\_\_\_
    - $\sum MR$
    - TR
    - Both (a) & (b)
    - Either (a) or (b)
  - Price Discrimination under monopoly depends upon on
    - Elasticity of supply depends of commodity
    - Taxes & other overhead
    - The size of the market where he sells
    - Elasticity of demand for the commodity
  - Assume that when price is Rs.20, the quantity demanded is 9 and when the price is Rs.19, the quantity demanded is 10 units. Based on this information, what is the marginal revenue resulting from an increase in output from 9 to 10 units.
    - Rs.20
    - Rs.19

c) Rs.10

d) Rs.1

7. Which of the following is best described a "Market"

a) Place a where Shares and Securities are bought and sold

b) Place Where fruits are and Vegetables are bought and sold

c) A place where Buyer & Seller meet and bargain over commodity for price

d) place where transaction takes place

8. A firm will shut down in the short run, if

a) It is suffering a loss

b) Fixed cost exceeds revenue

c) Variable costs exceed revenue

d) Total costs exceeds revenue

9. Value of good means

a) Its Economic worth

b) Its power to obtain other good

c) Both a & b

d) Neither a & b

10. Which of these is not feature of market?

a) Buyers & Sellers

b) Commodity, Product or Service

c) Bargains for a Price

d) Government Regulation and Control

11. Quasi rent is

a) Equal to the firm's total profit

b) Greater than the firm's total profit

c) Smaller than the firm total profit

d) Not related to firm's profits

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

a) Rs.18

b) Rs.16

c) Rs.12

d) Rs.28

13. Suppose a firm is Producing a level of output such that  $MR > MC$ . What should be firm do to maximize its profits?

- a) The firm should do nothing
  - b) The firm should hire less labour
  - c) The firm should increase Price
  - d) The firm should increase output
14. While a seller under perfect competition equates price and MC to maximize profits a monopolistic should equate
- a) AR and MC
  - b) AR and MR
  - c) MR and MC
  - d) TC and TR
15. Which of these is feature of market?
- a) Perishable nature of commodity
  - b) Government Regulation & Control
  - c) One Price for a product or Service at a given time
  - d) Scarcity of Resources
16. Market price prevails in which of the following market situation?
- a) Very Short period
  - b) Short period
  - c) Long period
  - d) Very long period
17. The real determinant of the size of a market in a country is the
- a) Income of its population
  - b) Geographical area
  - c) Size of its population
  - d) Income of the Government
18. Which of the following is an element of Market Structure?
- a) Buyer & Seller
  - b) A product or service
  - c) Barging for a price
  - d) All of the above
19. A firm practicing price discrimination will be
- a) Charging different price for different qualities of product
  - b) Buying in the cheapest and selling in the dearest market
  - c) Charging different price in different markets of a product
  - d) Buying-only from forms selling in bulk at a discount
20. A bilateral monopoly is one in which
- a) There are two products with one producer
  - b) There are international monopoly agreements
  - c) Monopoly is shared between the people
  - d) A monopoly is facing a monopolist

21. In the very short run
- a) Demand only can change
  - b) Supply only can change
  - c) Both demand & supply can change
  - d) None of these
22. Which of these is not a market Structure in Economics?
- a) Perfect Competitions
  - b) Monopoly
  - c) Monopolistic Competitions
  - d) Intense Competitions
23. Marginal Revenue is equal to
- a) The change in price divided by the change in output
  - b) The change in quantity divided by the change in price
  - c) The Change in  $P * Q$  due to a one unit change in output
  - d) Price, But only if the firm price searcher
24. Firms have chronic excess capacity in
- a) Duopoly
  - b) Perfect competition
  - c) Monopolistic Competition
  - d) Oligopoly
25. In the long run the market price of commodity is equal to its minimum average cost of production under the
- a) Perfect competition
  - b) Monopoly
  - c) Monopolistic competition
  - d) Oligopoly
26. In the long run
- a) Demand only can change
  - b) Supply only can change
  - c) Both demand & supply can change
  - d) None of these
27. Which of these is a market structure in Economics?
- a) Stock Exchange
  - b) Reserve Bank of India
  - c) Oligopoly
  - d) Government of India

28. Suppose that a sole Proprietorship is earning total revenue of Rs.1,00,000 and incurring explicit costs of Rs.75,000. If the owner could work for another company for Rs.30,000 a year would conclude that:
- The firm is incurring economic losses
  - Implicit costs are Rs.25,000
  - The total economic costs are Rs.1,00,000
  - individual is earning economic profit of Rs.25,000
29. The MR Curve cuts the horizontal lines between Y axis and demand curve into
- Two unequal parts
  - Two equal parts
  - May be equal or unequal parts
  - None of these
30. Market which has two firms is known as
- Oligopoly
  - Oligopsony
  - Bilateral Monopoly
  - Duopoly
31. Which of the following types of competition is just a theoretical concept, not a realistic case where actual competition & trade takes place?
- Monopoly
  - Oligopoly
  - Perfect competition
  - Monopolistic competition
32. Average revenue curve should be kinked in
- Duopoly
  - Monopoly
  - Collusive oligopoly
  - Non-collusive oligopoly
33. Which of the following features is not associated with a monopoly market structure?
- There is only one seller in the market
  - There are no close substitutes for the product
  - There are barriers to entry
  - There are no close complements for the product
34. Competitive firms in the long run earn
- Super Normal Profit
  - Normal Profit
  - Losses
  - None
35. A monopoly based on size and market strength is known as
- Technological monopoly
  - Natural monopoly
  - Geographical monopoly
  - Government monopoly
36. In a \_\_\_\_\_ a deviation from equilibrium brings into market forces in operation which resort equilibrium



**BUSINESS CYCLES**  
**MULTIPLE CHOICE QUESTIONS**

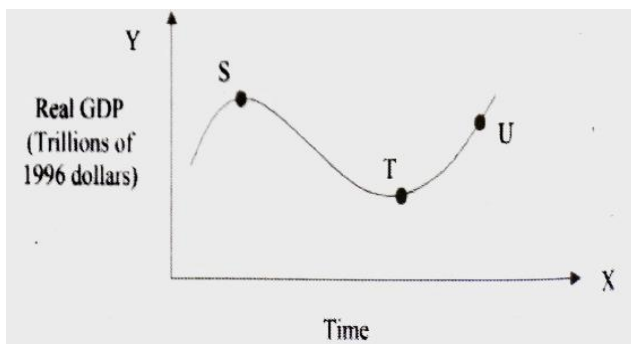
1. The term business cycle refers to \_\_\_\_\_
  - a) The ups and down in production of commodities
  - b) The fluctuating levels of economic
  - b) A variable that tends to move in advance activity over a period
  - c) Decline in economic activity over prolonged period
  - d) Increasing unemployment rate and diminishing rate of savings.
2. A significant decline in general economic activity extending over a period is \_\_\_\_\_
  - a) Business cycle
  - b) Contraction phase
  - c) Recession
  - d) Recovery
3. The trough of a business cycle occurs when \_\_\_\_\_ hits its lowest point.
  - a) Inflation in the economy
  - b) The money supply
  - c) Aggregate economic activity
  - d) The unemployment rate
4. The lowest point in the business cycle is referred to as the \_\_\_\_\_
  - a) Expansion
  - b) Boom
  - c) Peak
  - d) Trough
5. A leading indicator is \_\_\_\_\_
  - a) A variable that tends to move along with the level of economic activity
  - b) A variable that tends to move in advance of aggregate economic activity
  - c) A variable that tends to move consequent on the level of aggregate economic activity.
  - d) None of the above
6. A variable that tends to move later than aggregate economic activity is called \_\_\_\_\_
  - a) A leading variable
  - b) A coincident variable
  - c) A lagging variable
  - d) A cyclical variable
7. Industries that are extremely sensitive to the business cycle are the
  - a) Durable goods and service sectors
  - b) Non-durable goods and services sectors
  - c) Capital goods and Non- durable goods sectors
  - d) Capital goods and durable goods sectors
8. A decrease in government spending would cause \_\_\_\_\_
  - a) The aggregate demand curve to shift to the right
  - b) The aggregate demand curve to shift to the left



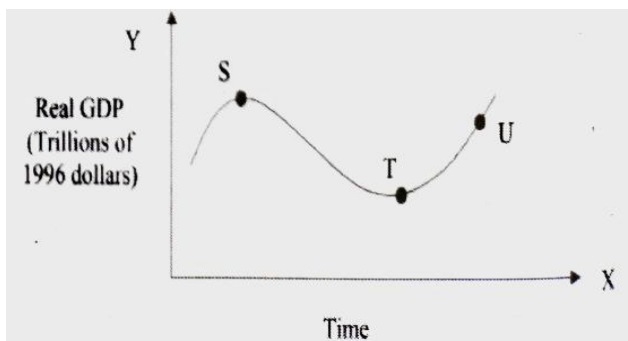
- c) A movement down and to the right along the aggregate demand curve
  - d) A movement up and to the left along the aggregate demand curve
9. Which of the following does not occur during an expansion?
- a) purchase of all types of goods tend to increase
  - b) Employment increases as demand for labour rises
  - c) Business profits and business confidence tend to increase
  - d) None of the above
10. Which of the following best describes a typical business cycle?
- a) Economic expansions are followed by economic contractions
  - b) Inflation is followed by rising income and unemployment
  - c) Economic expansions are followed by economic growth and development
  - d) Stagflation is followed by inflationary economic growth
11. During recession, the unemployment rate \_\_\_\_\_ and \_\_\_\_\_ output
- a) Rises; falls
  - b) rises; rises
  - c) falls; rises
  - d) falls; falls
12. Leading economic indicators
- a) Are used to forecast probable shifts in economic policies
  - b) Are generally used to forecast economic fluctuations
  - c) Are indicators of stock prices existing in an economy
  - d) Are indicators of probable recession and depression
13. When aggregate economic activity is declining, the economy is said to be in
- a) Contraction
  - b) An expansion
  - c) A trough
  - d) A turning point
14. Peaks and troughs of the business cycle are known collectively as
- a) Volatility
  - b) Turning points
  - c) Equilibrium points
  - d) Real business cycle events.
15. The most probable outcome of an increase in the money supply is
- a) Interest rates to rise, investment spending to rise, and aggregate demand to rise
  - b) Interest to rise, rates investment spending to fall, and aggregate demand to fall
  - c) Interest rates to fall, investment spending to rise, and aggregate demand to rise
  - d) Interest rates to fall, investment spending to fall, and aggregate demand to fall
16. Which of the following is not a characteristic of business cycles

- a) Business cycles have serious consequences on the wellbeing of the society.
  - b) Business cycles occur periodically, although they do not exhibit the same regularity.
  - c) Business cycles have uniform characteristics and causes.
  - d) Business cycles are contagious and unpredictable.
17. Economic recession shares all of these characteristics except.
- a) Fall in the levels of employment
  - b) Incomes of wage and interest earners gradually decline resulting in decreased demand for goods and services
  - c) Investor confidence is adversely affected and new investments may not be forthcoming
  - d) Increase in the price of inputs due to increased demand for inputs
18. The different phases of a business cycle
- a) Do not have the same length and severity
  - b) Expansion phase always last more than ten years
  - c) Last many years and are difficult to get over in short periods
  - d) None of the above
19. Which of the following is not an example of coincident indicator?
- a) Industrial production
  - b) Inflation
  - c) Retail sales
  - d) New orders for plant and equipment
20. According to \_\_\_\_\_ trade cycle occur due to onset of innovations.
- a) Hawtrey
  - b) ADAM Smith
  - c) JM Keynes
  - d) Schumpeter
21. The term “business cycle” most closely refer to the \_\_\_\_\_
- a) Alternating period of expansions and recessions
  - b) Accounting period used by firms.
  - c) Fluctuating profits of firms
  - d) Fiscal Year
22. The four parts of the business cycle occur in the following order \_\_\_\_\_
- a) Expansion, trough, peak, recession
  - b) Recession, trough, expansion, peak
  - c) Recession, trough, peak, expansion
  - d) Expansion, trough, recession, peak

23. A recession is a time with \_\_\_\_\_
- A decrease in the unemployment
  - A decrease in the level of total production
  - A decline in the price level
  - A decline in interest rates
24. A recession is a popularly defined as \_\_\_\_\_.
- No change in the dollar (money value of economic output over a period of time)
  - No change in real GDP over a period
  - At least 6 months during which real GDP decrease
  - An increase in real economic output from one period to the next
25. During a recession, real GDP \_\_\_\_\_ and unemployment \_\_\_\_\_
- Increases; decreases
  - Decreases; increases
  - Increases; Increases
  - Decreases; decreases
26. In the below figure, the distance between points S and T represents



- A peak
- An expansion
- A recession
- A trough



27. In the above figure, the letter S, T and U represent which position in the business cycle?
- recession, expansion, and peak, respectively

- b) Expansion, peak and recession, respectively
- c) Peak, expansion, and recession, respectively
- d) Peak, trough, and expansion, respectively.

28. Match the following:

Stage of business	Features
i) Rising employment and real wages	(A) Recession
ii) Fall in the rate of growth	(B) Boom
iii) Fall in the level of real national Product	(C) Slowdown
iv) Setting in of the rising trend of national output features	(D) Recovery

- a) (i) (B), (ii) (c), (iii) (A), (iv) (D)
- b) (i) (A), (ii) (B), (iii) (C), (iv) (D)
- c) (i) (D), (ii) (c), (iii) (B), (iv) (D)
- d) None of the above

29. In which of the following stage of economics cycle, both employment and output expand and level of aggregate demand for goods and services is high?

- a) Economic recession
- b) Economic boom
- c) Economic recovery
- d) Economic slowdown

30. During the slowdown of economy \_\_\_\_\_

- a) GDP is decreasing
- b) GDP is increasing
- c) GDP is increasing at slower rate
- d) None of the above

31. The cobweb theory was propounded by

- a) Nicholas Kaldor
- b) Adam Smith
- c) J.M. Keynes
- d) Hawtrey

32. What is another name for soft lending?

- a) Recession
- b) Economic slowdown
- c) Revival
- d) None of the above

33. What is leading indicator in the following

- |                  |                    |
|------------------|--------------------|
| a) Change in GDP | b) Change in stock |
| c) Unemployment  | d) None            |

34. Boom is characterized by

- a) Increase in growth rate & decrease in output
- b) Decrease in growth rate & Increase in output
- c) Increase in growth rate & Increase in output
- d) Decrease in growth rate & decrease in output

35. When aggregate economic activity is increasing the economy is said

- |                 |                    |
|-----------------|--------------------|
| a) An expansion | b) A contraction   |
| c) A peak       | d) A turning point |

36. Research on the effect of recession on the real level of GDP shows that \_\_\_\_\_

- a) Recession causes only temporary reduction in real GDP, which are offset by growth during the expansion phase
- b) Recession causes large, permanent reduction in the real level of GDP
- c) Recession causes both temporary & permanent decline in real GDP, but most of the decline is temporary
- d) Recession causes both temporary and permanent declines in real

37. The tendency of many different economic variable to have regular and predictable patterns across industries over the business cycle is called \_\_\_\_\_

- |                |               |
|----------------|---------------|
| a) Persistence | b) Comovement |
| c) Periodicity | d) Recurrence |

38. The tendency for declines in economic activity to be followed by further declines and for growth in economic activity to be followed by more growth is called \_\_\_\_\_

- |                |               |
|----------------|---------------|
| a) Persistence | b) Comovement |
| c) Periodicity | d) Recurrence |

39. An economic variable that moves in the same direction as aggregate economic activity (up in expansions, down in contraction) is called \_\_\_\_\_

- |                |                       |
|----------------|-----------------------|
| a) Procyclical | b) Countercyclical    |
| c) Acyclical   | d) A leading variable |

40. A An economic variable that moves in the opposite direction as aggregate economic activity (down in expansions, up in contraction) is called \_\_\_\_\_

- |                |                       |
|----------------|-----------------------|
| a) Procyclical | b) Countercyclical    |
| c) Acyclical   | d) A leading variable |



**ANSWER KEY**

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

## DETERMINATION OF NATIONAL INCOME

### MULTIPLE CHOICE QUESTIONS

1. Net value of all economic goods & services produced within the domestic territory of a country in an accounting year plus net income factor from abroad.
  - a.  $NNP_{FC}$
  - b.  $NNP_{MP}$
  - c.  $NDP_{FC}$
  - d.  $NDP_{MP}$
2. National income is also known as
  - a.  $NNP_{FC}$
  - b.  $GNP_{FC}$
  - c.  $NDP_{FC}$
  - d.  $GDP_{FC}$
3. Market value of all final goods and services, gross of depreciation, produced within a domestic territory of a country during a given period of time is known as
  - a.  $GDP_{FC}$
  - b.  $GNP_{FC}$
  - c.  $GNP_{MP}$
  - d.  $GDP_{MP}$
4. \_\_\_\_\_ = Value of output in the domestic territory - value of intermediate consumption
  - a.  $GDP_{MP}$
  - b.  $GNP_{MP}$
  - c.  $GDP_{FC}$
  - d.  $GNP_{FC}$
5. Read the following statements and answer the following question.
  - I. Intermediate consumption consists of the value of the goods and services consumed as **inputs** by a process of production
  - II. Intermediate consumption excludes fixed assets whose consumption is recorded
    - a. Only I is true
    - b) Both I and II are true
    - c. Only II is true
    - d) Neither I nor II is true
6. Sectoral contribution to National Income information is used by the \_\_\_\_\_ to decide various sector-specific development policies to increase growth rates
  - a. Media
  - b. Government
  - c. Economists
  - d. Politicians
7. The calculation of real GDP gives us a useful measure of inflation known as
  - a. GDP inflator
  - b. national income deflator
  - c. GDP deflator
  - d. None of the above
8.  $GDP\ Deflator = \frac{\text{_____}}{\text{Real GDP}} \times 100$ 
  - a. Nominal GNP
  - b. Real GDP
  - c. Nominal GDP
  - d. none of the above
9. The GDP deflator is a price index used to convert \_\_\_\_\_ to \_\_\_\_\_
  - a. Real GDP, nominal GDP
  - b. Nominal GDP, Real GDP







- c. future year d. none of the above

27. Measurement at market prices constitutes \_\_\_\_\_

- a. external sale price angle  
 b. internal value addition angle  
 c. both a and b  
 d. none of the above

28. Choose the correct statement

- a. GNP includes earnings of Indian corporations overseas and Indian resident working overseas; but GDP does not include these  
 b.  $NNP_{FC} = \text{National Income} = \text{FID (Factor income earned in domestic territory)} - \text{NFIA}$ .  
 c. Capital goods and inventory investment are excluded from computation of GDP  
 d.  $NDP_{MP} = GDP_{MP} + \text{Depreciation}$

29. Which of the following is a limitation of national income computation?

- a. national income considers the quality improvement due to technological and managerial innovations  
 b. national income ignores the 'economic bads' e.g. crimes, pollutions, etc.  
 c. national income considers disutility of loss of leisure time  
 d. none of the above

30. Which of the following is not a conceptual difficulty related to the measurement of national income

- a. accurate distinction between final goods and intermediate goods  
 b. valuation of government services  
 c. services of durable goods  
 d. none of the above

31. Compute the National Income (in crores)

Consumption = 500                  investment = 250                  government purchases = 150  
 export = 30                          Import = 50

- a. 880 b. 680  
 c. 980 d. 780

32. Calculate  $GDP_{MP}$  and derive national income from the given data (in crores)

Inventory investment = 100

Export = 200

Indirect taxes = 100

Net factor income from abroad = (50)

Personal consumption expenditure = 3500

Gross residential construction investment = 300

Depreciation = 50

Imports = 100

Government purchase of goods and services = 1000

Gross business fixed investments = 300

a.  $GDP_{MP} = 3500, JNNP_{FC} = 5400$

b.  $GDP_{MP} = 5500, JNNP_{FC} = 4300$

c.  $GDP_{MP} = 5500, JNNP_{FC} = 5300$

d.  $GDP_{MP} = 5500, JNNP_{FC} = 5300$

33. Calculate the Gross Value Added ( $GVA_{MP}$ ) from the following data.

Sales = 1300

Opening stock = 100

Closing stock = 80

Intermediated consumption = 50

Investment = 400

a. 1230

b. 1530

c. 1930

d. 1320

34. Calculate  $NNP_{FC}$ . By expenditure method with the help of following information (Items in Crores)

Private final consumption expenditure = 100

Net Import = 20

Public final consumption expenditure = 50

Gross domestic fixed capital formation = 350

Depreciation = 60

Subsidy = 20

Income paid to abroad = 20

Change in stock = 25

Net acquisition of valuables = 10

a.  $NNP_{FC} = 455 \text{ cr}$

b.  $NNP_{FC} = 635 \text{ cr}$

c.  $NNP_{FC} = 475 \text{ cr}$

d.  $NNP_{FC} = 550$  cr

35. Calculate the net factor cost from the given data (in crore)

market price of goods = 500

indirect taxes = 40

subsidies given by government = 20

subsidies given by financial institutions = 40

Net indirect taxes = 20

net factor income from abroad = (15)

a. 605 cr

b. 480 cr

c. 580cr

d. 500 cr

36. **Profits earned by Apple from** Indian manufacturing operations is part of India's \_\_\_\_\_, but these profits are part of USA's \_\_\_\_\_.

a. GDP, GNP.

b. GNP, GDP

c. NDP, NNP

d. NNP, NDP

37. Compensation of employee includes \_\_\_\_\_

a. Wages and salaries

b. Employee contribution to provident fund.

c. Imputed value of compensation in kind

d. All of the above.

38. Government expenditure on pensions, scholarships, unemployment allowance etc. should be excluded because these are \_\_\_\_\_

a. autonomous payments.

b. deferred payments

c. transfer payments

d. consumer payments.

39. Only expenditure on final goods and services produced in the period for which national income is to be measured and net foreign investment are included in the \_\_\_\_\_ of calculating national income.

a. Value added method

b. product method

c. income method

d. expenditure method

40. Choose the correct statement

I. While using income method, capital gains, windfall profits, transfer incomes and income from sale of second-hand goods and financial assets and payments out of past savings are not included

- II. Only incomes earned by owners of primary factors of production are included in national income
- a. Statement I
  - b. Statement II
  - c. Both statement I and II
  - d. None of the above
41. In income method, which of the following is excluded from national income
- a. Compensation of employees
  - b. Corporate profits
  - c. Interest paid on public debt
  - d. Rent for building
42. Choose the correct statement
- I. Imports are included in the value of intermediate consumption purchases are given
  - II. Value added method shows the duplicated contribution by each industry to the total output
- a. Statement I
  - b. Statement II
  - c. Both statement I and II
  - d. None of the above
43. Choose the correct statement
- a. Deflator measures the change in prices that has occurred between base year and current year
  - b. Circular flow of income refers to the continuous circulation of production, income and expenditure.
  - c. The base price is the amount receivable by the producer from the purchaser for a unit of a product minus any tax on the product plus any subsidy on the product
  - d. All of the above
44. GDP covers all production activities recognized by SNA called the \_\_\_\_\_
- a. Production circle
  - b. production boundary
  - c. production list
  - d. production class
45. If NFIA is positive, then national income will be \_\_\_\_\_ than domestic factor incomes
-

- a. lesser
- b. equal
- c. greater
- d. none of the above

46. Personal income = Undistributed profit - \_\_\_\_\_ - Corporate tax = \_\_\_\_\_

- a. Transfer payment to household from firms and government, Net factor income from abroad.
- b. Net interest payments made by households, Transfer payments to household from firms and government
- c. Transfer payments to household from firms and government, Net interest payments made by households.
- d. Net factor income from abroad, Transfer payments to household from firms and government.

47. Choose the correct statement

- a. National income statistics also provide a qualitative basis for macroeconomic modeling and analysis, for assessing and choosing political policies
- b. National income estimates throw light on income distribution and the possible inequality in the distribution among different income categories
- c. Sectoral contribution to National Income information is not used by the government to decide various sector- specific development policies to increase growth rates.
- d. All of the above

48. National income makes comparisons of structural statistics such as ratios of investment, taxes, government expenditure, etc.

- a. True
- b. False
- c. Partly true
- d. none of the above

49. \_\_\_\_\_ is inflation-adjusted measure and is not affect by change in prices

- a. Nominal GDP
- b. Real GDP
- c. Nominal GNP
- d. Real GNP

50. Choose the correct statement

- I. The value of assets such as stocks and bonds which are exchanged in the permanent period are not included in national income
- II. The value of assets like stocks and bonds are not included because they do not directly involve current production
- a. Statement I
- b. Statement II

- c. Both statement I and II  
 d. None of the above
51. Product method is also known as  
 a. Value added method  
 b. Industrial origin method  
 c. Net output method  
 d. All of the above
52. \_\_\_\_\_ is the aggregate final expenditure in an economy during an accounting year  
 a. Expenditure method  
 b. Income disposal method  
 c. Value added method  
 d. Both a and b
53. What is the full form of PFCE?  
 a. Public Finance Consumption Expenditure  
 b. Private Finance Consumption Expenditure  
 c. Primary Finance consumption Expenditure  
 d. Public Fiscal consumption Expenditure
54. Which of the following calculates the national income of India?  
 a. Reserve Bank of India  
 b. Securities exchange Board of India  
 c. Central Statistical Organization  
 d. Central government

**ANSWER KEY**

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



**THE KEYNESIAN THEORY OF DETERMINATION OF NATIONAL INCOME**  
**MULTIPLE CHOICE QUESTIONS**

1. An economy is said to be in equilibrium when the \_\_\_\_\_ and the \_\_\_\_\_ match
  - a. leakages, injections
  - b. production of business, consumption of household
  - c. aggregate demand, aggregate supply
  - d. all of the above
  
2. In a \_\_\_\_\_ economy, the components are aggregate demand for consumer goods and aggregate demand for investment goods
  - a. Two sector
  - b. Three sector
  - c. Four sector
  - d. none of the above
  
3. The consumption function describes the \_\_\_\_\_ relationship between \_\_\_\_\_ and \_\_\_\_\_
  - a. positive, consumption spending, and disposable incomes
  - b. negative, investment spending, and personal incomes
  - c. positive, government spending, and disposable incomes
  - d. negative, consumption spending, and disposable incomes
  
4. \_\_\_\_\_ express the functional relationship between aggregate consumption expenditure corresponding to each of aggregate disposable income
  - a. Expenditure function
  - b. Income function
  - c. Consumption function
  - d. Saving function
  
5. The value of increment to of increment to \_\_\_\_\_ per unit of increment to \_\_\_\_\_ is termed as the marginal propensity to consume (MPC).
  - a. consumption expenditure, savings
  - b. investment expenditure, savings
  - c. consumption expenditure, expenditure total
  - d. consumption expenditure, income
  
6. In the two sector circular flow model, savings by households are equal to:
  - a) Consumption expenditure
  - b) Taxes paid to the government
  - c) Investments by firms
  - d) Governments spending
  
7. The saving function shows the level of savings at each level of \_\_\_\_\_
  - a. income

- b. disposable income
  - c. personal income
  - d. none of the above
8. Which of the following statements are correct?
- I. The increment of savings per unit increase in income is called marginal propensity to save
  - II. The increment of consumption expense per unit of increment to income is termed as marginal propensity to consume
- a. statement I
  - b. statement II
  - c. both statement I and II
  - d. none of the above
9. \_\_\_\_\_ expenditure is the minimum expenditure to sustain life irrespective of size of income, thus it is \_\_\_\_\_.
- a. Aggregate consumption, income elastic
  - b. Autonomous consumption, income inelastic
  - c. Autonomous consumption, income elastic
  - d. aggregate consumption, income inelastic
10. When aggregate effective demand exceeds the economy's full employment output, it result in \_\_\_\_\_ and nominal output \_\_\_\_\_.
- a. inflation, increases
  - b. deflation, increases
  - c. deflation, decreases
  - d. inflation, decreases
11. Marginal propensity to consume (MPC) is the determinant of the value of the multiplier and that there is a \_\_\_\_\_ relationship between \_\_\_\_\_ and value of \_\_\_\_\_
- a. direct, MPC, multiplier
  - b. indirect, MPC, multiplier
  - c. direct, MPS, multiplier
  - d. indirect, MPS, multiplier
12. Higher the MPS, \_\_\_\_\_ will be the value of multiplier.
- a. Higher
  - b. Lower
  - c. Nil
  - d. none of the above
13. Multiplier is \_\_\_\_\_ when the value of MPC is 1



- a. injection
- b. multiplier
- c. leakage
- d. none of the above

22. Choose the correct option with respect to Keynesian concept of equilibrium.

- a. Equilibrium output occur when desired output demanded in the economy is equal to the production in the economy
- b. Equilibrium output occurs when desired supply in the economy is equal to the production in the economy.
- c. Equilibrium output occurs when desired saving in the economy is equal to the supply in the economy.
- d. Equilibrium output occurs when desired supply in the economy is equal to the savings in the economy.

23. Choose the correct statement

- I. Aggregate supply consumption + savings
- II. aggregate demand investments + savings
- a. Statement I
- b. Statement II
- c. Both I and II
- d. None of the above

24. Household provides \_\_\_\_\_ to the business sector and business sector provides \_\_\_\_\_ to households

- a. factors of production, investments
- b. factors of production, goods and services
- c. goods and services, factors of production
- d. investments, goods and services

25. Household receives \_\_\_\_\_ while business sector receives \_\_\_\_\_

- a. factor income, goods and services
- b. investments, factor income
- c. goods and services, factor income
- d. factor income, consumption expenditure

26. Multiplier refers to when a change in \_\_\_\_\_ leads to a proportionately \_\_\_\_\_ changes in level of national income

- a. leakages, larger
- b. injection, smaller
- c. injection, larger

d. leakages, smaller

27. The ratio of \_\_\_\_\_ to \_\_\_\_\_ is called investment multiplier

- a. change in savings, change in investments
- b. change in investments, change in expenditure
- c. change in income to change in savings
- d. change in income to investments

28. If the value of MPC is 0.25, then the value of multiplier will be

- a. 4
- b. 1
- c. 1.333
- d. 0.75

29. The consumer price index is a measure of

- a) The overall level of prices in an economy
- b) The total Output produced in an economy
- c) The unemployment rate in an economy
- d) None of these

30. When the value of multiplier is 10, and change in income is 4, then the value of change in investments will be

- a. 40
- b. 0.4
- c. 4
- d. 0.04

31. What is the equation of a 4 sector economy

- a.  $Y = C - I - G + (X - M)$
- b.  $Y = C + I + G + (X + M)$
- c.  $Y = C + I - G + (X - M)$
- d.  $Y = C + I + G + (X - M)$

32. Choose the correct statement

- I. In a three sector economy due to government sector there are three new flows added- flow of savings, investments and taxes
  - II. In a four sector economy due to foreign sector there are three new flows added- import, export, and net capital inflow
- a. Statement I
  - b. Statement II
  - c. Both statement I & II
  - d. none of the above

33. When the investment in the economy increases by 1.4 crores, it causes the national income to increase by \_\_\_\_\_, thus the value of the investment multiplier is 2.5

- a. 3.5
- b. 0.56

c. 1.79

d. 5.3

34. Which of the following does not influence the equilibrium aggregate income?
- a. technological advancements                      b. political status  
c. factors of production                              d. none of the above
35. The relation between political instability and size of national income is?
- a. Inverse    b. Direct  
c. Linear    d. No relation
36. Causes responsible for \_\_\_\_\_ of national income is known as leakages
- a. decline    b. increase an  
c. decrease     d. both a and c
37. Which of the following is a basic concept in economics that refers to the limited nature of resources?
- a) Opportunity Cost                                      b) Scarcity  
c) Inflation    d) GDP
38. Exports are \_\_\_\_\_ and imports are \_\_\_\_\_ in flow of national income
- a. injections, leakages                                      b. multiplier, leakages  
c. leakages, multiplier                                      d. leakages, injections
39. A/an \_\_\_\_\_ in the demand for a country's export has a \_\_\_\_\_ effect on equilibrium income.
- a. increase, contractionary                                b. decline, contractionary  
c. increase, expansionary                                 d. both b and c
40. In the economy, business sector produces 50,000 units at an average price of Rs.12. If the household spends 75% of their income, what is the total consumer expenditure?
- a. Rs.6,00,000  
b. Rs.4,50,000  
c. Rs.66,667  
d. Rs.55,555
41. Using the following data calculate savings, the economy's consumption equation is  $C=500+0.80Y$ . the disposable income of A,B and C are 4000. 5000 and 6000 respectively.
- a. 300, 400, 500  
b. 400, 500, 600  
c. 300, 500, 700  
d. 200, 400, 600

42. The linear consumption function is  $C = 700 + 0.8Y$ ; Investment is Rs.1,200 and net exports are 100. Find equilibrium output.
- 10,000
  - 4,000
  - 12,000
  - none of the above
43. Calculate marginal propensity to save when  $Y_1 = 300$ ,  $Y_2 = 500$  and  $S_1 = 550$ ,  $S_2 = 700$
- 0.75
  - 1.333
  - 1.5625
  - 0.64
44. 'The General Theory of Employment Interest and Money' is published by?
- A.C. Pigou
  - J.M. Keynes
  - D.H. Robertson
  - Alfred Marshall
45. The specific form consumption function, proposed by Keynes is
- $C = Y$
  - $C_a + bY$
  - $C = I$
  - $C = S$
46. Choose the correct statement
- If the net exports are positive i.e.  $X > M$ , then it acts as an injection that increases national income
  - The autonomous expenditure multiplier in a four sector model includes the effects of foreign transactions and is stated as  $1 / (1 - b + m)$  where 'm' is the propensity to import
- Statement I
  - Statement II
  - Both I and II
  - None of the above
47. Marginal propensity to import  $m = \Delta M / \Delta Y$  is assumed to be \_\_\_\_\_
- constant
  - 0

- c. 1
  - d. infinite
48. The tax system consists of both \_\_\_\_\_ tax and \_\_\_\_\_ taxes
- a. lump sum, regressive
  - b. individual, proportionate
  - c. lump sum, progressive
  - d. regressive, individual
49. The investment injection is shown as a flow from \_\_\_\_\_ markets to the \_\_\_\_\_ sector.
- a. financial, household
  - b. consumer, business
  - c. foreign, household
  - d. financial, business
50. The interest rate at which a central bank lends money to commercial banks is known as
- |               |                  |
|---------------|------------------|
| a) Prime rate | b) Discount rate |
| c. NDP        | d. NNP           |
52. The three sector Keynesian model is constructed assuming that government purchases are \_\_\_\_\_
- a. Induced
  - b. Autonomous
  - c. Both induced and autonomous
  - d. Neither induced nor autonomous
53. Choose the correct statement
- I. The classical economists believed that the economy could automatically achieve equilibrium
  - II. Keynes theory of determination of equilibrium real GDP, employment and prices focuses on the relationship between aggregate income and aggregate savings
- a. Statement I
  - b. Statement II
  - c. Both I and II
  - d. None of the above
54. \_\_\_\_\_ is the level of full employment.
- a. Potential GDP
  - b. Projected GDP
  - c. Prospective GDP
  - d. Real GDP.



**ANSWER KEY**

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

**PUBLIC FINANCE**  
**MULTIPLE CHOICE QUESTIONS**

1. Government's \_\_\_\_\_ function will bring about improvement in social welfare.
  - a. Allocation function
  - b. Redistribution function
  - c. Stabilization function
  - d. Budgetary function
2. Which of the following leads to under production and higher prices in the market and affect efficiency of market?
  - a. Tax implications
  - b. Imperfect competition and presence of monopoly
  - c. Government policies
  - d. Unemployment level
3. Which of the following function can be influenced by government?
  - a. Direct Production
  - b. Provision of incentives and disincentives
  - c. Regulatory and discretionary policies
  - d. All of the above.
4. Which of the following circumstances necessitate redistribution by government?
  - a. Providing equality in income, wealth and opportunities
  - b. Providing security for people who gave hardships
  - c. Ensuring the everyone enjoys a minimal standard of living
  - d. All of the above
5. Proceeds from progressive taxes used for financing \_\_\_\_\_
  - a. Public service
  - b. Private services
  - c. Government services
  - d. None of the above.
6. What is the primary source of revenue for the central government?
  - a) States taxes
  - b) GST
  - c) Corporate Taxes
  - d) Sales Taxes
7. Which of the following represents a capital receipt?
  - a) Income Tax
  - b) GST
  - c) Borrowings
  - d) Customs
8. \_\_\_\_\_are hesitating to produce public parks, bridges and highways.
  - a. Public sectors
  - b. Government sector
  - c. Private producers
  - d. None of the above
9. During times of inflation the government might employ which monetary policy measure to reduce the money supply?



- c. Adam Smith
  - d. J.M. Keynes
17. Which of the following are microeconomic functions?
- a. Allocation function
  - b. Redistribution function
  - c. Both a and
  - d. Stabilization function
18. Monetary and fiscal policy, problems of macroeconomic stability, maintenance of high levels of employment and price stability fall under which function?
- a. Allocation function
  - b. Stabilization function
  - c. Redistribution function
  - d. None of the above
19. Which of the following is international measures adopted by the government under redistribution function?
- a. Employment reservations and preferences to protect certain segments of the population.
  - b. Government sets legal and administrative frameworks, and any of a mixture of intermediate techniques may be adopted by governments.
  - c. Government may influence private allocation through incentive and disincentives.
  - d. Government may directly produce the economic good.
20. Government's stabilization intervention may be through \_\_\_\_\_ policy.
- a. Monetary policy
  - b. Fiscal policy
  - c. Both a and b
  - d. Expansionary policy
21. Which of the following statement is incorrect?
- a. Expansionary fiscal policy is adopted to improve recession.
  - b. Contractionary fiscal policy is resorted to for controlling high inflation.
  - c. Deficit budgets are expected to stimulate economic activity
  - d. Surplus budgets are tend to stimulate economic activity.
22. Macroeconomic stability is said to exist when
- a. An economy's output matches it's production capacity
  - b. The economy's total spending matches it's total output
  - c. Inflation is low and stable
  - d. All of the above.

**ANSWER KEY**

1	<b>(a)</b>	2	<b>(b)</b>	3	<b>(d)</b>	4	<b>(d)</b>	5	<b>(a)</b>
6	<b>(b)</b>	7	<b>(c)</b>	8	<b>(c)</b>	9	<b>(b)</b>	10	<b>(b)</b>
11	<b>(c)</b>	12	<b>(c)</b>	13	<b>(c)</b>	14	<b>(d)</b>	15	<b>(d)</b>
16	<b>(b)</b>	17	<b>(c)</b>	18	<b>(b)</b>	19	<b>(a)</b>	20	<b>(c)</b>
21	<b>(d)</b>	22	<b>(d)</b>						

## MARKET FAILURE/GOVERNMENT INTERVENTION TO CORRECT MARKET FAILURE

### MULTIPLE CHOICE QUESTIONS

1. The situation in which the free market leads to misallocation of society's scarce resources in the sense that there is either overproduction of particular goods and services leading to a less than optimal outcome is \_\_\_\_\_
  - a. Market failure
  - b. Tragedy of Commons
  - c. Public goods
  - d. Market power
2. What are the main characteristics of private goods?
  - a. Private goods refer to those goods that yield utility to people.
  - b. Private property rights
  - c. Consumption of private goods is rivalrous.
  - d. All of the above
3. The incentive to let other people pay for a good or service, the benefits of which are enjoyed by an individual is known as
  - a. Information failure
  - b. Positive externalities
  - c. Free rider problem
  - d. Negative externalities
4. \_\_\_\_\_ is defined as one which all individual enjoy in common in the sense that each individual's consumption of such a good leads to no subtraction from any other individual's consumption of that good.
  - a. Private goods.
  - b. Public goods.
  - c. Economics goods
  - d. Both a and b
5. The action of either consumers or producers result in costs or benefits other producer or consumer that do not reflect as part of the market price. Such costs or benefits which are not accounted for by the market price are called.
  - a. Externalities
  - b. Market power
  - c. Incomplete information
  - d. Private costs
6. \_\_\_\_\_ externalities occur when the action of one party confers benefits on another party.
  - a. Negative
  - b. Positive
  - c. Rivalrous
  - d. None of the above
7. Private goods refer to those goods that yield \_\_\_\_\_ to people.



15. The cost faced by the producer or consumer directly involved in a transaction.
- a. Private cost
  - b. Public cost
  - c. Social cost
  - d. External
16. In the case of producer private cost includes
- a. Direct cost of labour
  - b. Material
  - c. Energy
  - d. All of the above
17. Total costs to the society on account of a production or consumption activity is
- a. Private cost
  - b. External cost
  - c. Social cost
  - d. Any of the above
18. How to calculate social cost?
- a. Private cost + Fixed cost
  - b. Private cost + External cost
  - c. Variable cost + fixed cost
  - d. External cost + opportunity cost
19. Due to negligence of negative externalities, marginal private cost is \_\_\_\_\_ marginal social cost.
- a. Equal to
  - b. More than
  - c. Lower than
  - d. Both a and b
20. \_\_\_\_\_ will reduce the cost and consequently price
- a. Positive externalities
  - b. Negative externalities
  - c. Incomplete information
  - d. Market power
21. Which of the following term is used by economist to describe the problem which occurs when rivalrous but non excludable goods are overused to the disadvantage of the entire world.
- a. Social cost
  - b. Market power
  - c. Information failure
  - d. Tragedy of Commons
22. What are peculiar characteristics of public goods?
- a) Indivisibility
  - b) Non-excludability





- c. Both a and b
- d. None of the above

30. Impure public goods are also known as

- a. Hybrid goods
- b. Quasi - public goods
- c. Global public goods
- d. All of the above

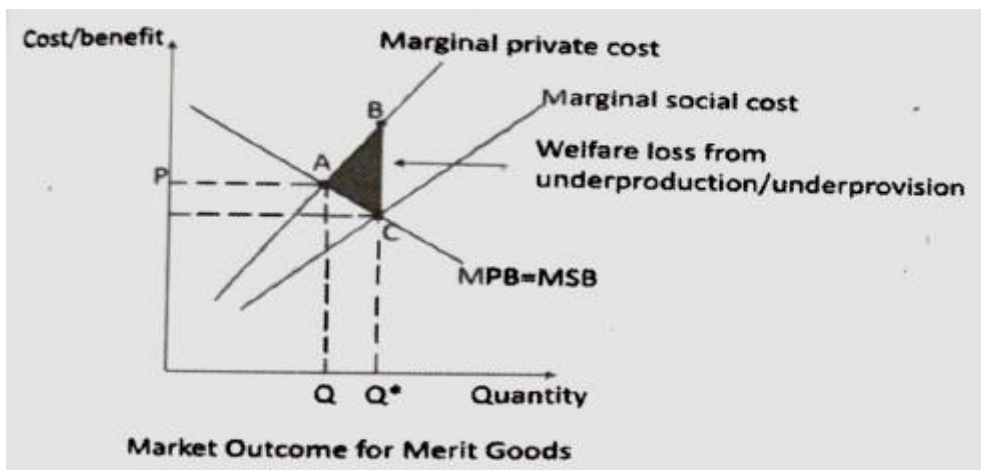
31. \_\_\_\_\_ are goods whose impacts are indivisible spread throughout the entire globe.

- a. Quasi -public goods
- b. Global public goods
- c. Pure public goods.
- d. All of the above

32. Negative externalities impose costs on society that extend beyond the

- a. Cost of goods sold
- b. Variable cost
- c. Fixed cost
- d. Cost of production

See the following diagram and answer the question 33, 34, 35)



33. The equilibrium level of output that would be produced by free market is Q1 at which marginal private benefit (MPB) is equal to

- a. Loss of social welfare
- b. Marginal social cost
- c. Marginal private cost
- d. All of the above

34. What represents the full or true cost to the society of producing another unit of a good?

- a. Marginal social cost
- b. Marginal private cost
- c. Marginal private benefit
- d. None of the above

35. Social efficiency occurs at \_\_\_\_\_ level of output where MSC is equal to MSB.

- a. Q\*
- b. Q
- c. P1
- d. P2

36. \_\_\_\_\_ can take advantage of public goods without contributing sufficiently to their production.
- a. Producers
  - b. Vendors
  - c. Consumers
  - d. Seller
37. Direct government prohibits specific activities that explicitly create \_\_\_\_\_ externalities.
- a. Negative
  - b. Positive
  - c. Both a and b
  - d. Certain
38. What are the relative advantages of market - based interventions?
- a. Lesser costs
  - b. Market price for pollution
  - c. Both a and b
  - d. Higher profits
39. Taxes are difficult to determine and administer due to difficulty to discover the right level of taxation, problems associated with \_\_\_\_\_ nature of demand for the good.
- a. Elastic
  - b. Inelastic
  - c. Unitary inelastic
  - d. Any of the above
40. Why do governments provide public goods?
- a. To regulate the level of the entry fee chargeable from the public.
  - b. To keep strict watch on the functioning of the licensee to guarantee equitable distribution of welfare.
  - c. To impose higher tax on goods and services
  - d. Both a and b
41. Which type of goods impose significant negative externalities on the society as a whole and are believed to be socially undesirable?
- a. Merit goods
  - b. Demerit goods
  - c. Both of a and b
  - d. None of the above
42. What are characteristics of demerit goods?
- a. The consumption of demerit goods imposes significant negative externalities on the society as a whole
  - b. The production and consumption of demerit goods are likely to be more than optimal under free markets
  - c. Consumers may lack perfect information
  - d. Both a and b

43. \_\_\_\_\_ occurs when merit goods and services are under consumed under free markets conditions.
- a. Market inflation
  - b. Recession
  - c. Market failure
  - d. Depression
44. What are the main characteristics of merit goods?
- a. They generate positive externalities
  - b. There is an unequal distribution of income
  - c. Consumers may be uncertain as to their future needs
  - d. All of the above
45. The consumption of demerit goods imposes significant negative externalities on the society as a whole. Hence private costs incurred by individual consumers are the social costs experienced by the society.
- a. Greater than
  - b. Less than
  - c. Equal to
  - d. None of the above
46. Merit goods includes
- a. Health services
  - b. Education
  - c. Public libraries
  - d. All of the above
47. Government intervention can be in the form of
- a. Direct provision
  - b. Regulation
  - c. Licensing
  - d. All of the above
48. Size of the tax depends on the amount of \_\_\_\_\_ a firm produces.
- a. Products
  - b. Pollution
  - c. Profits
  - d. All of the above
49. Tax increases the \_\_\_\_\_ of production or consumption as the case may be.
- a. Social cost
  - b. Marginal cost
  - c. Private cost
  - d. Fixed cost
50. \_\_\_\_\_ is market based policy and involves the government paying part of the cost to the firms in order to promote the production of goods having positive externalities.
- a. Subsidy
  - b. Tragedy of Commons
  - c. Price floor
  - d. Price controls
51. Price ceiling is also called a
- a. Minimum price
  - b. Price floor
  - c. Profit margin
  - d. Maximum price

52. Which controls are set by government to ensure steady and assured income to farmers?
- Rent controls
  - Food price controls
  - Both a and b
  - None of the above
53. Which controls are imposed to give relief to tenant from landlord as they are charging very high rent to them?
- Rent controls
  - Safety controls
  - Food price controls
  - All of the above
54. A price ceiling which is set below the prevailing market clearing price will generate excess \_\_\_\_\_ over supply
- |            |                 |
|------------|-----------------|
| a. Utility | b. Satisfaction |
| c. Demand  | d. Need         |
55. Price floor is also called as
- |                  |                      |
|------------------|----------------------|
| a. Maximum price | b. Minimum price     |
| c. Same Price    | d. None of the above |
56. The government fixes floor price for
- |                      |                     |
|----------------------|---------------------|
| a. Cosmetic products | b. Medicines        |
| c. Farm products     | d. All of the above |
57. In case of crops the Indian government has initiated the
- |                          |                          |
|--------------------------|--------------------------|
| a. Maximum support price | b. Minimum support price |
| c. Both a and b          | d. Food price controls   |
58. Government prevent appearance of monopolies and related social costs by
- Promoting competition
  - Prohibited contracts and agreements among firms which are anti- competitive or detrimental to consumers
  - Ensuring proper use of intellectual property rights and avoiding their misuse.
  - All of the above
59. Price based regulations includes
- Setting maximum prices that firms can charge

- b. Price - caps based on a firm's variable costs, past prices, possible inflation and productivity growth
- c. Both a and b
- d. Promoting competition

60. A subsidy given by government reduces

- a. Production cost
- b. Distribution cost
- c. Profit margin
- d. All of the above

61. Free rider problem leads to

- a. Inflation
- b. Tragedy of Commons
- c. Market failure
- d. None of the above

62. Examples of market intervention are

- a. Fixing of minimum wages
- b. Rent controls
- c. Information failure
- d. Both a and b

**ANSWER KEY**

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

MULTIPLE CHOICE QUESTIONS

1. The budget in which revenues are equal to expenditures
  - a. Balanced budget
  - b. Surplus budget
  - c. Deficit budget
  - d. Both b and c
  
2. \_\_\_\_\_ is a statement that presents the details of where the 'money comes from' and 'where the money goes to'.
  - a. Balance sheet
  - b. Trading account
  - c. Budget
  - d. All of the above
  
3. The budget is prepared by
  - a. Ministry of Defence
  - b. Ministry of Banking
  - c. Ministry of Commerce
  - d. Ministry of Finance
  
4. The schedule of the entire revenues and expenditure that the government expects to receive and plans to spend during the following year is \_\_\_\_\_.
  - a. Monetary budget
  - b. Government budget
  - c. Balanced budget
  - d. Surplus budget
  
5. The budgetary procedure includes
  - a. Preparation of the budget
  - b. Presentation and enactment of the budget
  - c. Executive of the budget
  - d. All of the above
  
6. The budget process consists of
  - a. The administrative process
  - b. The legislative process
  - c. Both a and b
  - d. None of the above
  
7. Union budget is presented on \_\_\_\_\_.
  - a. 1st February
  - b. 1st January
  - c. 1st April
  - d. 31<sup>st</sup> March
  
8. Process of budget preparation commence in \_\_\_\_\_ of the previous year.
  - a. June – July
  - b. January – February
  - c. March – April
  - d. August – September
  
9. The budget documents depict information relating \_\_\_\_\_





- a. Central board of direct taxes.
  - b. Central board of indirect taxes and customs
  - c. Both a and b
  - d. None of the above.
19. Revenue receipt consists of
- a. Tax revenue
  - b. Non tax revenue
  - c. Debt receipts
  - d. Both a and b
20. Capital receipt consists of
- a. Debt receipts
  - b. Non-debt capital receipt
  - c. Both a and b
  - d. Tax revenue
21. Sources of revenue are
- a. Corporate tax
  - b. Taxes on income
  - c. Custom duties
  - d. All of the above
22. Debt capital receipt does not includes
- a. Recoveries of loans and advances
  - b. Market loans for different purposes
  - c. Net external fund
  - d. All of the above
23. Economic costs of unproductive public expenditures have effects such as
- a. Larger deficits
  - b. Higher levels of taxation
  - c. Lower economic growth
  - d. All of the above
24. Government debt from internal and external sources contracted in the consolidated fund of India is defined as
- a. Public debt
  - b. Public expenditure
  - c. Private debt
  - d. All of the above
25. Debt management strategy is based on
- a. Low cost of borrowing
  - b. Risk mitigation
  - c. Market development
  - d. All of the above
26. The institution responsible for public debt management are
- a. Reserve bank of India



- a. Capital receipt + revenue receipts
  - b. Total expenditure + fiscal deficit
  - c. Revenue expenditure – Revenue expenditure
  - d. Revenue receipts + capital receipt excluding borrowing
35. The difference between the government's total expenditure and its total receipts excluding borrowing is
- a. Fiscal deficit
  - b. Surplus deficit
  - c. Both a and b
  - d. Revenue deficit
36. A fiscal deficit of current year minus interest payments on previous borrowings is called as
- a. Primary deficit
  - b. Revenue deficit
  - c. Both a and b
  - d. Fiscal deficit.

The following hypothetical figure relate to country A: (Rs. In Crores)

Revenue Receipts	10000
Recovery of Loans	1000
Borrowings	10000
Other Receipts	6000
Expenditure on revenue account	22000
Expenditure on capital account	24000
Interest Payment	1500

37. The Revenue deficit of country A is
- a. 10000
  - b. 20000
  - c. 15000
  - d. 12000
38. Fiscal deficit of country A is
- a. 15000
  - b. 20000
  - c. 29000
  - d. 28000
39. Primary deficit of country A is
- a. 27000
  - b. 27500
  - c. 25000
  - d. 30000

**ANSWER KEY**

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

**UNIT - 4: FISCAL POLICY**  
**MULTIPLE CHOICE QUESTIONS**

1. Government budget is one among the most powerful instruments of
  - a. Economic policy
  - b. Insurance policy
  - c. Accounting policy
  - d. Auditing policy
2. Fiscal policy refers to the
  - a. Annual financial statement
  - b. Redistribution of income and enhance equity
  - c. Use of government spending, taxation and borrowing to influence the level of economic activity
  - d. All of the above
3. Fiscal policy is in nature of
  - a. Supply side policy
  - b. Demand side policy
  - c. Both a and b
  - d. None of the above
4. Objectives of fiscal policy are
  - a. Maintenance of price stability
  - b. Achievement and maintenance of full employment
  - c. Equitable distribution of income and wealth
  - d. All of the above
5. GDP refers to the
  - a. Gross Disposable Product
  - b. Gross Domestic Product
  - c. Goods Dynamic Product
  - d. None of the above
6.  $GDP =$ 
  - a.  $C + I + NX$
  - b.  $I+G+NX$
  - c.  $C+I+G+NX$
  - d.  $C++ G- NX$
7. Expansionary Fiscal Policy is designed
  - a. To stimulate the economy during the contractionary phase of a business cycle or when there is an anticipation of a business cycle contraction.
  - b. To restrain the levels of economic activity of the economy during an inflationary phase or when there is anticipation of a business cycle expansion which is likely to induce inflation.
  - c. To attain long run economic growth through policies to stimulate aggregate supply
  - d. All of the above
8. Contraction fiscal policy is designed

- a. To stimulate the economy during the contractionary phase of a business cycle or when there is an anticipation of a business cycle contraction.
  - b. To restrain the levels of economic activity of the economy during an inflationary phase or when there is anticipation of a business cycle expansion which is likely to induce inflation.
  - c. To increase the disposable income of people through tax cuts and to enable greater demand
  - d. All of the above
9. Contradictory Fiscal Policy works through a combination of \_\_\_\_\_ in government spending and \_\_\_\_\_ personal income taxes and /or business taxes.
- a. increase, decrease
  - b. decrease, increase
  - c. increase, increase
  - d. decrease, decrease
10. Tools of fiscal policy are
- a. Taxes
  - b. Government expenditure
  - c. Public debt
  - d. All of the above
11. Public expenditure includes
- a. Government's expenditure towards consumption
  - b. Transfer payments
  - c. Both a and b
  - d. Dividend
12. Government expenditure includes
- a. Current expenditure to meet the day to day running of the government.
  - b. Capital expenditure which are in the form of investment made by the government in capital equipments and infrastructure
  - c. Transfer payments
  - d. All of the above
13. \_\_\_\_\_ is also used as a policy instrument to reduce the severity of inflation and to bring down the prices.
- a. Private expenditure
  - b. Public expenditure
  - c. Capital receipt
  - d. All of the above
14. During recession and depression \_\_\_\_\_ is framed to encourage private consumption and investment.
- a. Monetary policy
  - b. Foreign policy
  - c. Defence policy
  - d. Tax policy
15. \_\_\_\_\_ corporate taxes increase prospects of profits for business and promote further investment.



- c. No change. d. None of the above
26. When spending by government in an economy replaces private spending it is said to be
- a. Balanced economy b. Crowding out
- c. Contractionary gap d. Recession
27. A recessionary gap also known as
- a. Expansionary gap b. Depression
- c. Contractionary gap d. Replacement gap
28. A recession sets in with a period of declining \_\_\_\_\_ income
- a. Nominal b. Real
- c. National d. Revenue surplus
29. A recession is characterized by
- a. Declining prices and rising employment
- b. Declining unemployment and rising prices
- c. Declining real income and unemployment.
- d. Rising real income and rising prices
30. Which of the following is following is incorrect statement?
- a. A recessionary gap also known as a contractionary gap
- b. Fiscal policy aims to attain long run economic growth through policies to stimulate aggregate supply
- c. A recession sets in with a period of declining nominal income
- d. None of the above
31. When government aims to solve the problem of \_\_\_\_\_ with an expansionary fiscal policy it will resort to increase in spending and /or a reduction in taxes.
- a. Recession b. Depression
- c. Peak d. All of the above



**ANSWER KEY**

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

**MONEY MARKET**  
**MULTIPLE CHOICE QUESTIONS**

1. Which of the following is not a use of money:
  - a) Means of payment.
  - b) Transfer of purchasing power.
  - c) Standard of deferred payments.
  - d) None of these.
2. Select the correct definition of legal tender:
  - a) Means of payment recognized by the IMF.
  - b) Means of payment recognized by the World Bank
  - c) Means of payment recognized by the RBI.
  - d) Means of payment recognized by a legal system.
3. Select the option which is a medium of exchange but not money:
  - a) Bill of Exchange.
  - b) Bearer promissory notes issued by RBI.
  - c) Expired Cheque.
  - d) None of these
4. Which of the following statements outline the Quantity Theory of Money?
  - a) There is a direct relationship between purchasing power and general price level.
  - b) There is an indirect relationship between purchasing power and general price level.
  - c) There is a direct relationship between quantity of money supply and interest rates.
  - d) There is an indirect relationship between quantity of money supply and interest rates.
5. Which of the following examples show money as a standard of deferred payments
  - a) Payment of goods on cash basis.
  - b) Payment of bank charges for cheque clearing.
  - c) Payment of bank loan.
  - d) None of these.
6. Demand for money is actually demand for and demand for \_\_\_\_\_ and demand for \_\_\_\_\_
  - a) Liquidity, Purchasing power.
  - b) Liquidity, storage of value.
  - c) Current payment, deferred payments
  - d) Speculation, property payments.
7. True or False: Demand for money is a factor in deciding interest rates
  - a) True.
  - b) False.
  - c) Partly True.
  - d) None of these.
8. Quantity Theory of Money was propounded by:
  - a) Irving Fisher
  - b) J.M. Keynes
  - c) Alfred Marshall.
  - d) A.C. Pigou
9. Which of the following is not a motive for holding cash as per J.M Keynes?
  - a) Real cash balance

- b) Speculation  
 c) Standard of deferred payments  
 d) Precaution
10. Which of the following approaches treat cash balance as inventory?  
 a) Baumol and Tobin Approach  
 b) Keynesian Approach  
 c) Classical Approach  
 d) Marshall Law
11. As per Baumol and Tobin, the more the number of times a bond transaction is made, the \_\_\_\_\_ will be \_\_\_\_\_ the average transaction balance holdings.  
 a) Same  
 b) Lesser  
 c) More  
 d) None of these
12. Which of the following economists were not involved in the Cambridge Approach?  
 a) Alfred Marshall  
 b) J.M. Keynes  
 c) A.C. Pigou  
 d) Irving Fisher
13. Which of the following functions of money has primarily led to the emergence of MNCs?  
 a) Medium of exchange  
 b) Common measure of value  
 c) Standard of deferred payments  
 d) Transfer of value
14. Whose theory for demand for money is commonly referred to as "Liquidity Preference Theory?"  
 a) Irving Fisher  
 b) Cambridge Approach  
 c) J.M. Keynes  
 d) Milton Friedman
15. Which of the following equations correctly denote the Extended Version of Quantity Theory of Money?  
 a)  $MV = PT$   
 b)  $M'V' = PT + P'T'$   
 c)  $MV + M'V' = PT$   
 d) None of these
16. Which of the following is not a determinant of demand for money, as per Friedman's Theory?  
 a) Total wealth  
 b) Price level  
 c) Opportunity cost of money holdings  
 d) None of these
17. Real cash balance refers to money held for \_\_\_\_\_ purpose.  
 a) Speculative  
 b) Precautionary  
 c) Transaction  
 d) Investment
18. Bond prices and market interest rates have \_\_\_\_\_ relation



**ANSWER KEY**

1	<b>(d)</b>	2	<b>(d)</b>	3	<b>(a)</b>	4	<b>(b)</b>	5	<b>(c)</b>
6	<b>(b)</b>	7	<b>(a)</b>	8	<b>(a)</b>	9	<b>(c)</b>	10	<b>(a)</b>
11	<b>(b)</b>	12	<b>(d)</b>	13	<b>(d)</b>	14	<b>(c)</b>	15	<b>(c)</b>
16	<b>(c)</b>	17	<b>(c)</b>	18	<b>(b)</b>	19	<b>(c)</b>	20	<b>(c)</b>
21	<b>(b)</b>	22	<b>(a)</b>	23	<b>(c)</b>	24	<b>(a)</b>		

## UNIT - 2: CONCEPT OF MONEY SUPPLY

### MULTIPLE CHOICE QUESTIONS

1. The central bank is allowed to issue currency to any extent
  - a) By keeping minimum reserve
  - b) By keeping maximum reserve
  - c) By following Government guidelines
  - d) None of these
2. The reserve system of the RBI consists of
  - a) Gold and government securities
  - b) Gold and foreign exchange reserves
  - c) Gold and silver
  - d) None of these
3. Money created by commercial banks is called
  - a) Secondary money
  - b) Primary money
  - c) Reserve money
  - d) Credit money
4. Which of the following denotes the correct formula for M1
  - a) Currency with public + Other deposits with RBI.
  - b) Currency with public + Other deposits with RBI + CASA with banks.
  - c) High powered money + Demand deposits with banks
  - d) Both b and c
5. Which of the following denotes the correct formula for M2
  - a) M1 + Post office savings bank deposits
  - b) M1 + time deposits with banks
  - c) M4 - Time deposits with banks - Total deposits with post office + Saving deposits with post office
  - d) Both a and c
6. Which of the following is the correct formula for net demand deposits
  - a) Gross demand deposits - Other deposits with RBI
  - b) Gross demand deposits inter-bank deposits
  - c) Both of these
  - d) None of these
7. **Two major components of Reserve money are \_\_\_\_\_ and \_\_\_\_\_**
  - a) Currency with public; Demand deposits
  - b) Currency with public; Reserves
  - c) Both of these
  - d) None of these

8. Cash Reserve Ratio refers to the proportion of total deposits of commercial banks which they must keep as \_\_\_\_\_ reserves with \_\_\_\_\_.
- Liquid; Self
  - Cash; Self
  - Cash; RBI
  - Liquid; RBI
9. Statutory Liquidity Ratio refers to the proportion of total deposits of commercial banks which they must keep as \_\_\_\_\_ reserve with \_\_\_\_\_
- Liquid; Self
  - Cash; Self
  - Cash; RBI
  - Liquid; RBI
10. If NM3 = 10000 crore All Deposits with Post Office 2000 crore and NSC 100 crore, find L1.
- 12000 crore
  - 11900 crore
  - 12100 crore
  - 10100 crore
11. Based on Q10, if Term deposits with term lending institutions = 110 crore, term deposits with refinancing institutions = 20 crore; term borrowings by Fls = 10 crore ; Certificate of deposits issued by Fls = 2 crore ; Public deposits of NBFC = 1 crore ; Find L2.
- 12043 crore
  - 12040 crore
  - 12042 crore
  - 12142 crore
12. Based on details from Q10 and Q11, calculate L3.
- 12044 crore
  - 12143 crore
  - 12041 crore
  - 12043 crore
13. Identify the correct formula of money multiplier
- $m = \text{Monetary Base} / \text{Money Supply}$
  - $m = \text{Money Supply} / \text{Money Demand}$
  - $m = \text{Money Supply} / \text{Monetary Base}$
  - $m = \text{Money Demand} / \text{Money Supply}$ , lower the
14. Higher the \_\_\_\_\_, lower the \_\_\_\_\_.
- Monetary Base, Money Supply
  - Money Supply, Ratio of currency to deposits
  - Multiplier, Money Supply
  - Money Supply, Money Demand
15. What would be the effect on money multiplier if banks hold excess reserves?
- Deposits and currency will increase
  - Deposits and currency will decrease

- c) No effect on deposits and currency  
d) None of these
16. What effect does government expenditure have on money supply?  
a) Money supply will decrease  
b) Money supply will increase  
c) Money supply will remain constant  
d) None of these
17. What is the technical name of the loan given by RBI to the Central Government?  
a) Current Account  
b) Open Market Operations  
c) Trade Window  
d) Ways and Means Advances
18. What will be the value of the money multiplier in a system of 100% reserve banking?  
a) Infinity  
b) 0  
c) 1  
d) None of these
19. Credit multiplier is the reciprocal of \_\_\_\_\_.  
a) MSF Ratio  
b) LAF Ratio  
c) Required reserve ratio  
d) None of these
20. Total quantity of money available to the people in an economy is called  
a) Money demand  
b) Money supply  
c) M1  
d) L1
21. If Currency and coins with the public = 20000 crore, CASA with banks = 10000 crore, other deposits with RBI = 1000 crore, Savings deposits with post office savings banks = 1000 crore and time deposits with banks is 2000 crore, calculate M2.  
a) 34000 crore  
b) 33000 crore  
c) 32000 crore  
d) 31000 crore
22. As per Q21, calculate M4.  
a) 34000 crore  
b) 33000 crore  
c) 32000 crore  
d) None of these
23. Which of the following is not an impact that money multiplier approach considers on money supply?  
a) Stock of high-powered money  
b) Ratio of reserves to deposits  
c) Ratio of currency to deposits  
d) None of these
24. Which of the following is a factor in determining excess reserves held by banks?  
a) Market interest rate  
b) Expected deposit outflows







**UNIT -3: MONETARY POLICY**  
**MULTIPLE CHOICE QUESTIONS**

1. Which of the following is not an objective of monetary policy?
  - a) Moderate long term interest rates
  - b) Exchange rate stability
  - c) External Balance of Payments
  - d) Stability of Food Prices
2. Which of the following is not a basic component of monetary policy?
  - a) Objective of monetary policy
  - b) Analysis of monetary policy
  - c) Operational procedure of monetary policy
  - d) None of these
3. The process through which the evolution of monetary aggregates affects the level of production and price level is known as
  - a) Monetary policy
  - b) Lending channel
  - c) Monetary transmission mechanism
  - d) All of these
4. A contractionary monetary policy \_\_\_\_\_ the interest rates which in turn \_\_\_\_\_ the cost of capital for households and firms.
  - a) Increases, increases
  - b) Decrease, decreases
  - c) Increase, decreases
  - d) Decreases, Increases
5. How do asset prices respond to policy induced increase in short term nominal interest rates?
  - a) Increase
  - b) Decrease
  - c) Remain constant
  - d) None of these
6. Tools used by central bank to influence money market and credit conditions are called:
  - a) Monetary transmission mechanism
  - b) Monetary policy tools
  - c) Monetary policy instruments
  - d) Central bank directive instruments
7. Which of the following do not constitute direct instrument of monetary policy?
  - a) Cash reserve ratios
  - b) Market-based discount window
  - c) Administered interest rates

- d) Credit to priority sectors
8. Which of the following do not constitute indirect instrument of monetary policy?
- a) Repo rates
  - b) Open market operations
  - c) Standing facilities
  - d) None of these
9. Higher the CRR with the RBI, \_\_\_\_\_ will be the liquidity in the system.
- a) Higher
  - b) Decreases, decreases
  - c) Increases, decreases
  - d) Decreases, increases
10. Which of the following do not fall under eligible securities for SLR?
- a) Cash
  - b) Gold
  - c) Encumbered government securities which are approved.
  - d) None of these
11. Statutory Liquidity Ratio applies to NBFCs. This statement is
- a) True
  - b) False
  - c) Partly false
  - d) None of these.
12. Higher the SLR, \_\_\_\_\_ the credit creation capacity of a commercial bank.
- a) Higher
  - b) Lower
  - c) Same
  - d) None of these
13. Identity the institution to which Liquidity Adjustment Facility is not provided.
- a) Scheduled commercial bank
  - b) Primary dealers
  - c) Regional Rural Bank
  - d) All of these.
14. Liquidity Adjustment Facility is availed by dipping into SLR portfolio. This statement is
- a) True
  - b) False
  - c) Partly true
  - d) None of these.

15. Liquidity Adjustment Facility is provided on security of \_\_\_\_\_
- a) Government securities excluding state government securities.
  - b) Government securities including state government securities.
  - c) Bills of exchange discounted with the bank
  - d) RBI's monetary instruments held with the bank
16. Liquidity Adjustment Facility is provided on a/an \_\_\_\_\_ basis
- a) Daily
  - b) Weekly
  - c) Overnight
  - d) Fortnightly
17. Repo is defined as an instrument for borrowing funds by \_\_\_\_\_ securities with an agreement to \_\_\_\_\_ the securities on a mutually agreed future date at an agreed price which includes interest for the funds.
- a) Purchasing, repurchase
  - b) Selling, repurchase
  - c) Purchasing, resell
  - d) Selling, resell
18. The fixed rate quoted for \_\_\_\_\_ is considered the policy rate.
- a) LAF
  - b) MSF
  - c) Repo
  - d) Bank rate
19. The policy rate is the \_\_\_\_\_ rate of the central bank in a country.
- a) Defining
  - b) Controlling
  - c) Purchasing
  - d) Signalling
20. Reverse Repo is defined as an instrument for borrowing funds by \_\_\_\_\_ securities with an agreement to \_\_\_\_\_ the securities on a mutually agreed future date at an agreed price which includes interest for the funds.
- a) Purchasing, repurchase
  - b) Selling, repurchase
  - c) Purchasing, resell
  - d) Selling, resell
21. Bank Rate is linked to \_\_\_\_\_ rate.
- a) Repo
  - b) Reverse Repo
  - c) MSF
  - d) LAF

22. \_\_\_\_\_ is used to calculate penalty on default in maintenance of CRR and SLR.
- a) Repo rate
  - b) LAF rate
  - c) MSF rate
  - d) Bank rate
- 23 \_\_\_\_\_ is the general term used for market operations conducted by the RBI by way of sale/purchase of government securities to/from the market with an objective to adjust rupee liquidity conditions in the market on a regular basis.
- a) RBI purchase agreement
  - b) RBI trade agreement
  - c) Ways and Means Advances
  - d) Open Market Operations
24. Which of the following options indicate the correct tolerance rate for inflation as set by the Central Government?
- a) 4%, 6%
  - b) 2%, 6%
  - c) 4%, 8%
  - d) None of these
25. Which of the following is not an overall objective of economic policy?
- a) Maintenance of economic growth
  - b) Ensuring and equate flow of credit to productive sectors
  - c) Growing the moderate structure of interest rates to encourage investments
  - d) Creation of an efficient market for government securities
26. Which of the following do not fall under the three major aspects of operational procedure of monetary policy in India?
- a) Choosing the operating target
  - b) Choosing the intermediate target
  - c) Choosing the long term target
  - d) Choosing the policy instruments
27. Which of the following is not a function of the central bank:
- a) Bankers' bank
  - b) Government's bank
  - c) Lender of last resort
  - d) None of these
28. Central Bank is called bankers' bank due to which of the following instruments:
- a) Repo, Reverse Repo
  - b) LAF, MSF
  - c) Policy rate, bank rate

- d) Savings interest rate, current interest rate
29. Which of the following statements correctly explain the statement that the Central bank is a lender of last resort?
- a) It has same relation with other banks in the country as a commercial bank has with its customer.
  - b) It provides support to the Government through Ways and Means Advances.
  - c) It offers loans to banks to cope with the crisis when commercial banks create liability many times more than the cash reserve and they cannot repay it.
  - d) None of these
30. Which of the following factors is not noted by the Central Government as constituting a failure to achieve the inflation target?
- a) The average inflation is more than the upper tolerance level for consecutive three quarters
  - b) The average inflation is less than the lower tolerance level for consecutive three quarters
  - c) Both a and b
  - d) None of these
31. Number of members in Monetary Policy Committee is
- a) 3
  - b) 4
  - c) 5
  - d) 6
32. Which of the following is not covered under Monetary Transmission Mechanism?
- a) Interest rate channel
  - b) Exchange rate channel
  - c) Quantum channel
  - d) Asset factor channel
33. Identify the nature of monetary policy undertaken by RBI if it increases repo rate by 50 basis points.
- a) Expansionary
  - b) Contractionary
  - c) Stability
  - d) None of these
34. Identify the nature of monetary policy undertaken by RBI if it reduces cash reserve ratio.
- a) Expansionary
  - b) Contractionary
  - c) Stability
  - d) None of these
35. Identify the nature of monetary policy undertaken by RBI if it increases the supply of currency and coins.
- a) Expansionary
  - b) Contractionary
  - c) Stability
  - d) None of these
36. Identify the nature of monetary policy undertaken by RBI if it terminates marginal standing facility.
- a) Expansionary
  - b) Contractionary
  - c) Stability
  - d) None of these





## MULTIPLE CHOICE QUESTIONS

1. It is the rate at which the currency of one country is exchange for the currency of another country. It is also known as a foreign exchange (FX) rate.
  - (a) Repo rate
  - (b) Bank rate
  - (c) Exchange rate
  - (d) Cross rate
2. What do you mean by direct quote?
  - (a) It is the number of units of a local currency exchangeable for one unit of a foreign currency.
  - (b) It is the number of units of a foreign currency exchangeable for one unit of a local currency.
  - (c) It is the number of units of a foreign currency exchangeable for one unit of a local currency.
  - (d) Any of the above.
3. What do you mean by indirect quote?
  - (a) It is the number of units of a local currency exchangeable for one unit of a foreign currency.
  - (b) It is the number of units of a foreign currency exchangeable for one unit of a local currency.
  - (c) Any of the above
  - (d) None of the above
4. What do you understand by the term 'cross rate'?
  - (a) There may be two pairs of currencies with one currency being common between the two pairs.
  - (b) There may be one pair of currency with one currency being common between the one pairs.
  - (c) Any of the above
  - (d) None of the above
5. An \_\_\_\_\_ regime refers to the method by which the value of the domestic currency in terms of foreign currencies is determined.
  - (a) Exchange rate
  - (b) Repo rate
  - (c) Bank rate
  - (d) Cross rate
6. How is exchange rate determined under floating exchange rate regime?
  - (a) There is no predetermined target rate and the exchange rates are likely to change at every moment in time depending on the changing demand for and supply of currency in the market.
  - (b) There is predetermined target rate and the exchange rates are likely to change at every moment in time depending on the changing demand for and supply of currency in the market.
  - (c) Any of the above
  - (d) None of the above

7. Fixed exchange rate is also known as \_\_\_\_\_?
- (a) Pegged rate (b) Repo rate  
(c) Bank rate (d) None of these.
8. \_\_\_\_\_ is an exchange rate regime under which a country's Central Bank and/ or government announces or decrees what its currency will be worth in terms of either another country's currency
- (a) Fixed exchange rate (b) Floating exchange rate  
(c) Repo rate (d) None of these
9. Which of the following is the merits of Floating exchange rate?
- (a) A floating exchange rate has the great advantage of allowing a state bank and government to pursue its own independent monetary policy  
(b) Floating exchange rate regime has advantage of being self-regulating.  
(c) As there is obligation or necessity to intervene in the currency markets, the central bank is required to maintain a huge foreign exchange reserves.  
(d) None of the following
10. Which of the following is the demerits of Floating exchange rate?
- (a) The greatest demerit of a floating exchange rate regime is that volatile exchange rates generate a lot of uncertainties in relation to international transactions, and add a risk premium to the costs of goods and assets traded across borders. Hoxe box  
(b) The greatest demerit of a floating exchange rate regime is that volatile exchange rates generate a lot of certainties in relation to national transactions, and add a risk premium to the costs of goods and assets traded across borders.  
(c) Any of the above  
(d) None of these
11. What do you mean by real exchange rate?
- (a) Real exchange rate = Nominal exchange rate X Domestic price index / Foreign price Index  
(b) Real exchange rate = Nominal exchange rate X Foreign price index / Domestic price Index  
(c) Any of the above  
(d) None of these
12. Real Effective Exchange Rate (REER) is the nominal effective exchange rate (a measure of the value of a domestic currency against a weighted average of various currencies divided by a price \_\_\_\_\_ or index of costs.
- (a) Deflator (b) Inflator

(c) Any of the above

(d) None of these

13. \_\_\_\_\_ refers to the practice of making risk-less profits by intelligently exploiting differences of an asset at different dealing locations. There is potential for arbitrage in forex market if exchange rates are not consistent between currencies.

(a) Exchange rate

(b) Arbitrage

(c) Repo rate

(d) Bank rate

14. What do you mean by Arbitrage?

(a) When price differences occur in different markets, participants purchase foreign exchange in a low-priced market for resale in a high-priced market and makes profit in this process.

(b) When price differences occur in different markets, participants purchase foreign exchange in a high-priced market for resale in a low-priced market and makes profit in this process.

(c) Any of the above

(d) None of these

15. Current transactions which are carried out in the \_\_\_\_\_ market and the exchange involves immediate delivery

(a) Spot

(b) Forward and futures

(c) Commodity

(d) None of these

16. Contracts to buy or sell currencies for future delivery are carried out in \_\_\_\_\_ markets.

(a) Forward and futures

(b) Spot

(c) Commodity

(d) None of these

17. When value of currency increases with respect to the value of another currency or a basket of other currencies, it is called \_\_\_\_\_.

(a) Currency appreciation

(b) Currency depreciation

(c) Currency exchange

(d) None of these

18. \_\_\_\_\_ is a deliberate downward adjustment in the value of a country's currency relative to another currency, group of currencies or standard.

(a) Devaluation

(b) Evaluation

(c) Depreciation

(d) Appreciation

19. Which of the following is the characteristic of at foreign exchange market?

(a) It operates world-wide.

(b) It is smallest market in the world in terms of cash value traded

(c) It is an over-the-counter market, and a physical place as such.

(d) Forex market operates on very wide spreads between buying and selling prices.

20. Who are the participants in the foreign exchange market?
- (a) Central banks (b) Government  
(c) Commercial banks (d) All of the above
21. \_\_\_\_\_ have to contain the volatility of exchange rate to avoid sudden and large appreciation or depreciation of domestic to currency and maintain stability in exchange rate in keeping with the requirements of national economy.
- (a) Central bank (b) Commercial bank  
(c) Government (d) Foreign exchange dealer
22. \_\_\_\_\_ play role for their clients as agent, or as on their own account which includes speculators arbitrageurs, or both.
- (a) Central bank (b) Commercial bank  
(c) Government (d) Foreign exchange dealer
23. The fiscal health of a country whose currency depreciates is likely to be affected with rising \_\_\_\_\_ earnings and falling \_\_\_\_\_ payments and consequent impact on current account balance. A widening current account deficit is a danger signal as far as growth prospects of the overall economy is concerned.
- (a) Export and Import (b) Import and Export  
(c) Import and Import (d) Export and Export

**ANSWER KEY**

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

### UNIT -3: MONETARY POLICY

#### MULTIPLE CHOICE QUESTIONS

1. Which are the different types of foreign investment?  
(a) FPI (Foreign public investment) (b) FDI (Foreign direct investment)  
(c) FII (Foreign indirect investment) (d) Both a and b
2. \_\_\_\_\_ is defined as a process whereby the resident of one country (i.e. home country) acquires ownership of an asset in another country (i.e. the host country).  
(a) Foreign direct investment (b) Foreign public investment  
(c) Foreign indirect investment (d) both a and b
3. What are the components of foreign direct investment?  
(a) equity capital, reinvested earnings (b) debt capital, reinvested earnings  
(c) equity, debt capital (d) None of these
4. What is meant by foreign portfolio investment?  
(a) Foreign portfolio investment is the flow of what economists call financial capital rather than real capital and does not involve ownership or control on the part of the investor.  
(b) Foreign portfolio investment is the flow of what economists call financial capital rather than real capital and involve ownership or control on the part of the investor.  
(c) Any of the above  
(d) None of the above
5. What are the different routes for securing the FDI?  
(a) Establishment of subsidiaries branches, creation of joint ventures on a contract basis, joint development of natural resources and purchase or takeover of companies in the country receiving foreign capital  
(b) Establishment of subsidiaries or branches, creation of joint ventures on a contract basis, joint development of natural resources and sale or takeover of companies in the country paying foreign capital  
(c) Any of the above  
(d) None of the above
6. \_\_\_\_\_ is a route where no prior approval requires either from the Government or from the Reserve Bank of India to Indian company for foreign direct investments?  
(a) Automatic route (b) Manual route  
(c) joint venture route (d) none of the above
7. What is the effect of FDI on host country labour?



14. Which of the following is correct meaning of ton foreign aid?
- (a) Bilateral or direct inter government grants.
  - (b) Multilateral aid from many governments who pool funds to international organizations like the World Bank.
  - (c) Tied aid with strict orders regarding the use of money or untied aid where there are no such conditions.
  - (d) All of the above
15. Which of the following is a type of foreign capital?
- (a) Direct inter government loans
  - (b) Loans from international institutions
  - (c) Soft loans for e.g. From affiliates of World Bank such as IDA.
  - (d) All of the above
16. \_\_\_\_\_ is defined as a process whereby the resident of one country (i.e. home country) acquires ownership of an asset in another country (i.e. the host country) and such movement of capital involve ownership
- (a) FDI (Foreign Direct Investment)
  - (b) FPI (Foreign Portfolio Investment)
  - (c) Horizontal Direct Investment
  - (d) Vertical Investment
17. \_\_\_\_\_ is said to take place when the investor establishes the same type of business operation in a foreign country as it operates in its home country
- (a) Horizontal direct investment
  - (b) Vertical Direct investment
  - (c) Conglomerate type of foreign direct investment
  - (d) None of these
18. \_\_\_\_\_ is one under which the investor establishes or acquires a business activity in a foreign country which is different from the investor's main business activity yet in some way supplements its major activity
- (a) Horizontal direct investment
  - (b) Vertical Direct investment
  - (c) Conglomerate type of foreign direct investment
  - (d) None of these

19. \_\_\_\_\_ is one where an investor makes a foreign investment in a business that is unrelated to its existing business in its home country.
- (a) Horizontal direct investment
  - (b) Vertical Direct investment
  - (c) Conglomerate type of foreign direct investment
  - (d) None of these
20. \_\_\_\_\_ is a process in which the resident of one country (i.e. home country) acquires ownership of financial assets/securities in another country with long term objective.
- (a) FDI
  - (b) FPI
  - (c) Horizontal Direct Investment
  - (d) Vertical Investment
21. Select the correct statement
- (a) FDI Focuses only on obtaining and adequate return on financial capital by way of dividend, asset realisation and capital appreciation.
  - (b) Portfolio capital moves to a recipient country which has revealed its potential for higher return and profitability.
  - (c) FDI has immediate impact on income generating facility or exchange rates rather than on production or income generation.
  - (d) Both (a) and (c)
22. What are the different modes of effecting the foreign direct investment (FDI)?
- (a) Opening of a subsidiary or associate company in a foreign country.
  - (b) Equity injection into an company.
  - (c) Acquiring a controlling interest in an existing foreign company.
  - (d) All of the above.
23. In which sector of India is FDI prohibited?
- (a) Lottery business including Government/ private lottery, online lotteries, etc.
  - (b) Chit funds
  - (c) Nidhi company
  - (d) All of the above



**ANSWER KEY**

<b>1</b>	<b>(b)</b>	<b>2</b>	<b>(a)</b>	<b>3</b>	<b>(a)</b>	<b>4</b>	<b>(a)</b>	<b>5</b>	<b>(a)</b>
<b>6</b>	<b>(a)</b>	<b>7</b>	<b>(a)</b>	<b>8</b>	<b>(a)</b>	<b>9</b>	<b>(a)</b>	<b>10</b>	<b>(a)</b>
<b>11</b>	<b>(a)</b>	<b>12</b>	<b>(a)</b>	<b>13</b>	<b>(a)</b>	<b>14</b>	<b>(d)</b>	<b>15</b>	<b>(d)</b>
<b>16</b>	<b>(a)</b>	<b>17</b>	<b>(a)</b>	<b>18</b>	<b>(b)</b>	<b>19</b>	<b>(c)</b>	<b>20</b>	<b>(a)</b>
<b>21</b>	<b>(b)</b>	<b>22</b>	<b>(d)</b>	<b>23</b>	<b>(d)</b>				

**INDIAN ECONOMY**  
**MULTIPLE CHOICE QUESTIONS**

1. India is believed to have had the largest economy of the ancient and the medieval world and controlled between one third and one fourth of the world's wealth. What net brought about a marked shift in the economic history of India?
  - (a) Advent of the Europeans
  - (b) Rule of British from 1757 to 1947
  - (c) both of these
  - (d) None of these
2. What led to the destruction of the Indian manufacturing sector?
  - (a) Oppression of the public by the British
  - (b) Advent of the East India Company in India
  - (c) Indian manufacturers not being able to compete with foreign machine-made goods.
  - (d) Both (a) and (b)
3. What was the major reason for exploitation of Indian manufacturing sector by the British?
  - (a) Industrial Revolution
  - (b) First Independence Movement
  - (c) Indian radicalism
  - (d) Communist policies
4. The consequence of collapse of manufacturing sector was felt heavily on \_\_\_\_\_sector.
  - (a) Tertiary
  - (b) Service
  - (c) Agricultural
  - (d) Handicraft goods
5. Which of the following vices did not result due to institutional inadequacies in land tenure and growth of a class of exploitative money lenders and zamindars?
  - (a) Absentee landlordism
  - (b) High rents
  - (c) High indebtedness
  - (d) Stoppage of handicraft goods sector
6. Which sector saw lopsided growth due to British rule?
  - (a) Modern industrial sector
  - (b) Industrial sector
  - (c) Service sector
  - (d) Agricultural sector
7. Which of the following factors cannot be attributed to be the reason why newly independent India was deficient in physical, financial and human capital?
  - (a) At the time of independence, India was overwhelmingly rural.
  - (b) India was inhabited by mostly illiterate and poor people with low life expectancy.
  - (c) The social structure was deeply stratified and exceedingly homogeneous on many counts.
  - (d) None of these
8. Which of the following statements are correct about the Nehruvian model?
  - (a) It supported capitalism and incentivized profitable sectors of the economy.

- (b) It decided to opt for a golden path between capitalism and socialism.
- (c) It supported social and economic redistribution and industrialization directed by the state.
- (d) It decided to continue with the plans set forth by the last Governor General of India, Lord Mountbatten.
9. The \_\_\_\_\_ envisaged an expanded role for the public sector and licensing to the private sector.
- (a) Industrial Revolution
- (b) Public Finance Commission
- (c) Planning Commission
- (d) Industrial Policy Resolution
10. The policies in the 1950's were guided by \_\_\_\_\_ and \_\_\_\_\_ philosophies.
- (a) Nehruvian, Radical
- (b) Nehruvian, Gandhian
- (c) Radical, Gandhian
- (d) Socialist, Capitalist
11. \_\_\_\_\_ led to dampening of private initiative and enterprise.
- (a) Industrial Revolution
- (b) Nehruvian policies
- (c) Industrial Policy Resolution
- (d) LPG Reforms
12. \_\_\_\_\_ was the cornerstone of Nehru's development strategy.
- (a) Socialist policies
- (b) Equitable distribution of income
- (c) Rapid industrialization
- (d) Growth of service sector
13. India's average annual rate of growth of GDP in the first three decades after independence is referred to as
- (a) Nascent growth rate
- (b) Third world growth rate
- (c) Hindu growth rate
- (d) Development growth rate
14. India's average annual rate of growth of GDP in the first three decades after independence was
- (a) 3.5%
- (b) 3%
- (c) 4.5%
- (d) 2.5%
15. \_\_\_\_\_ philosophies visualised a socialistic society with emphasis on heavy industries
- (a) Nehruvian
- (b) Gandhian
- (c) Radical
- (d) Pre-independence
16. \_\_\_\_\_ philosophies stressed on small scale and cottage industry and village republics.

(a) Nehruvian

(b) Gandhian

(c) Radical

(d) Pre-independence

17. The first major shift in Indian economic strategy was during

(a) 1990s

(b) 1980s

(c) 1970s

(d) 1960s

18. Why was there a need for increased productivity in the agricultural sector three decades after independence?

(a) Continuous failures of monsoons and droughts

(b) Excessive focus on industrialization

(c) Farmer protests

(d) None of these

19. Which of the following activities did not come under the Green Revolution?

(a) Innovative farm technologies

(b) High yielding seed varieties

(c) Intensive use of water, fertilizer and pesticides

(d) None of these

20. Identify the correct full form of MRTP.

(a) Monopolies and Restraining Trade Practices

(b) Multinationals and Radical Trade Policies

(c) Monopolies and Restrictive Trade Practices

(d) Monopolies Practices and Restraining Trade

21. Which of the following trade practices were not covered under MRTP?

(a) Restrictions via licensing

(b) Restrictions on capacity addition

(c) Restrictions on mergers

(d) Restrictions on public issue

22. Economic performance during which of the following phases is considered the worst in independent India's history?

(a) 1947-1967

(b) 1965-1981

(c) 1973-1979

(d) 2001-2008

23. In which year did liberalization start?

(a) 1981

(b) 1991

(c) 1971

(d) 2001

24. In early 1980s considerable efforts were made to restore reasonable price stability through
- (a) Tight monetary policy
  - (b) Fiscal moderation
  - (c) Structural reforms
  - (d) All of the above
25. Which of the following are not included in the major reforms of the 1980s?
- (a) De licensing of 25 broad categories
  - (b) Increase in the asset limit of MRTP firms from 20 crore to 100 crore
  - (c) Establishment of the Securities and Exchange Board of India (SEBI)
  - (d) Restriction on imports through counter-veiling duties
26. Why were private sector investments inhibited?
- (a) Convoluted licensing policies
  - (b) Public sector reservations
  - (c) Excessive government controls
  - (d) All of these
27. Which of the following was not a problem prevalent in the public sector?
- (a) Inefficiency
  - (b) Government controls
  - (c) Low return on investment
  - (d) None of these
28. Which of the following is not a reason for launching economic reforms of 1991?
- (a) Extremely large fiscal deficit
  - (b) Heavy internal as well as external debt
  - (c) Lessons from collapse of the Soviet Union
  - (d) None of these
29. The reform policies can be broadly classified into
- (a) Stabilisation measures
  - (b) Structural reform measures
  - (c) Both of these
  - (d) None of these
30. Which of the following were part of the fiscal reforms of 1991?
- (a) Better tax compliance
  - (b) Increase of government's equity holdings
  - (c) Encouraging more effective public sector participation
  - (d) Introduction of more subsidies
31. Which of the following were part of the monetary and financial sector reforms of 1991?
- (a) Interest rate liberalization
  - (b) Facilitating greater competition in the banking sector

- (c) Reduction in reserve requirements
- (d) All of these
32. New Industrial Policy was announced by the government on
- (a) 20th July 1991 (b) 24th July 1991
- (c) 30th July 1991 (d) 22nd July 1991
33. Licensing was removed for all industries except \_\_\_\_\_ strategic industries.
- (a) 17 (b) 18
- (c) 19 (d) 20
34. Which of the following is not a part of the 1991 trade reforms?
- (a) Liberalisation of external trade (b) Removal of licensing for imports
- (c) Simplification of tariffs. (d) None of these
35. What is the full form NITI Aayog?
- (a) National Institution for Technology and Information
- (b) National Institution for Technology and Innovation
- (c) National Institution for Transforming India
- (d) National Initiative for Transforming India
36. Which of the following are not involved in the key initiatives of NITI Aayog?
- (a) Life (b) NDAP
- (c) Shooonya (d) Rural Development
37. Which of the following is not an objective of the NITI Aayog?
- (a) Encouraging privatisation with promotion of profit-making industries
- (b) Spur innovative thinking by objective expert
- (c) Promote co-operative federalism
- (d) None of these
38. Which of the following is a weakness of the NITI Aayog system?
- (a) NITI has a limited role.
- (b) NITI cannot look into federal matters
- (c) NITI is obligated to follow the directions of the Prime Minister
- (d) NITI is not a statutory body

39. India is the largest producer of which of the following
- (a) Fruits (b) Tea  
(c) Cotton (d) Milk
40. What is the full form of APEDA?
- (a) Atomic Production and Environmental Disaster Authority  
(b) Agricultural and Processed Food Export Development Authority  
(c) Animal Protection and Environmental Disturbance Authority  
(d) Agricultural and Processed Inventory Export Development Authority
41. What is the full form of MSP?
- (a) Minimum Support Pension (b) Minimum Strike Price  
(c) Minimum Support Price (d) Maximum Scalable Price
42. What is the full form of PMFBY?
- (a) Pradhan Mantri Fasal Bima Yojana (b) Pradhan Mantri Fal Bima Yojana  
(c) Pradhan Mantri Bima Yojana (d) Either a or b
43. What is the full form of MIDH?
- (a) Ministry for Integrated Development of Horticulture  
(b) Mission for Integrated Development of Horticulture  
(c) Mission for Integrated Development of Husbandry  
(d) Ministry for Integrated Development of paperHinduis
44. What is the full form of PKVY?
- (a) Paramparagat Krishi Vikas Yojana  
(b) Parampara Krishi Vikas Yojana  
(c) Pradhanmantri Krishi Vikas Yojana  
(d) None of these
45. What is the full form of FPO in context of agriculture?
- (a) Follow-on Public Offering (b) Farmer Producer Organization  
(c) Farmer Plant Organization (d) Farmer Public Organization
46. What is the full form of PDMC?
- (a) Pune Development Municipal Corporation  
(b) Per Drop More Corn

- (c) Per Drop More Crop  
(d) None of these
47. How much does Industrial sector contributes to gross value added?  
(a) 20% (b) 50%  
(c) 30% (d) 70%
48. Which is the most important sector for India?  
(a) Agriculture (b) Manufacturing  
(c) Service (d) None of these
49. What is the full form of PMI?  
(a) Purchase Management Index (b) Purchasing Managers' Index  
(c) Property Management Index (d) Purchase Monetary Index
50. What is the full form of DPIIT?  
(a) Department for Promotion of Industry and Internal Trade  
(b) Department for Propagation of Industry and Internalization of Trade  
(c) Department for Promotion of Industry and Import Tariffs  
(d) None of these
51. What is the name of the company that ruled India before the British Queen took over governance?  
(a) West India Company  
(b) North India Company  
(c) South India Company  
(d) East India Company
52. The onset of the Industrial & Revolution happened during the latter half of the \_\_\_\_\_ century.  
(a) 17th Century (b) 18th Century  
(c) 19th Century (d) 20th Century
53. The primary economic body of independent India was called  
(a) Niti Aayog (b) Finance Commission  
(c) Cabinet (d) Planning Commission
54. The economic thrust of the first decade and to a half of Independent India was on  
(a) Capital intensive (b) Consumer goods  
(c) Both of these (d) None of these



55. Choose the correct statement

Statement I: After 1967, the agricultural sector recorded substantial negative growth and India faced a serious food problem.

Statement II: India had to depend on the United States for food aid under PL 480.

- (a) Only Statement I (b) Only Statement II  
(c) Both Statement I and II (d) None of these

56. The thorough restructuring of the agricultural policy after 1967 is referred to as

- (a) New Agricultural Policy (b) Green Revolution  
(c) Agricultural Structural Reform (d) None of these

57. Choose the correct statement

Statement I: Equity driven policies of the 1970s were largely anti-growth.

Statement II: MRTP Act was aimed at regulation of large firms which had relatively large market power.

- (a) Statement I (b) Statement II  
(c) Both Statement I and II (d) Neither Statement I and II

58. What led to destruction of Indian handicrafts and manufactures?

- (a) Fall in external demand for indigenous products  
(b) Fall in domestic demand for indigenous products  
(c) Both of these  
(d) None of these

59. Where did jute mills expand rapidly in India in response to demand for ropes and other products?

- (a) Bombay (b) Delhi  
(c) Calcutta (d) Poona

60. Just before the Great Depression, India was ranked as the \_\_\_\_\_ largest industrialised country measured by the value of manufactured products.

- (a) First (b) Tenth  
(c) Twelfth (d) Thirteenth

61. Between 1969 and 1980, the government nationalized \_\_\_\_\_ banks.

- (a) 14 (b) 20  
(c) 25 (d) 50

62. Liberalization is often referred as
- (a) Reforms by stealth (b) Reforms by wealth  
(c) Reforms by strength (d) None of these
63. The early 1980's reforms broadly covered which three areas
- (a) Agriculture, trade, taxation (b) Agriculture, industries, trade  
(c) Trade, taxation, entertainment (d) Trade, taxation, industry
64. What is the full form of REER?
- (a) Refined Effective Exchange Rate  
(b) Rare Effective Exchange Rate  
(c) Real Efficient Exchange Rate  
(d) Real Effective Exchange Rate
65. What was the depreciation rate of the rupee between 1985-86 to 1989-90?
- (a) 20.0% (b) 30.0%  
(c) 35.0% (d) 40.0%
66. The \_\_\_\_\_ investments were inhibited due to reason such as convoluted licensing policies, public, public sector reservations, and excessive government distribution controls, etc.
- (a) Public sector (b) Private sector  
(c) Tertiary sector (d) Primary sector
67. SEBI was established in the year
- (a) 1992 (b) 1990  
(c) 1988 (d) 1991
68. Economic reforms of 1991 were brought under Prime Minister\_\_\_\_\_.
- (a) Indira Gandhi (b) Rajiv Gandhi  
(c) Dr. Manmohan Singh (d) P.V. Narasimha Rao
69. Lowest point of the forex reserves before the 1991 reforms were
- 1991 reforms were
- (a) 1 billion dollars (b) 1.1 billion dollars  
(c) 1.2 billion dollars (d) 1.3 billion dollars
70. Which of the following is a major objective of the 1991 economic reforms?

- (a) Reorientation of the economy from a centrally directed and highly controlled one to a market-oriented economy
- (b) Microeconomic stabilization by reduction fiscal deficit.
- (c) Both a and b
- (d) None of these
71. What is the full form of CAD?
- (a) Capital Account Deficit (b) Current Account Deficit
- (c) Critical Account Deficit (d) Crucial Account Deficit
72. Which of the following statements are correct in regard to the fiscal reforms
- Statement I: Introduction of transparent tax structure
- Statement II: Thrust one increasing government expenditure
- Statement III: Ensuring better tax compliance
- (a) Statement I and II (b) Statement II and III
- (c) Statement I and III (d) Statement I, II and III
73. The Government entered into a historic agreement with \_\_\_\_\_ in September 1994 to bring down the fiscal deficit in a phased manner to nil by 1997-98
- (a) Reserve Bank (b) World Bank
- (c) International Monetary Fund (d) United Nations
74. SEBI was given statutory recognition in
- (a) 1988 (b) 1992
- (c) 1991 (d) 2001
75. The concept of automatic approval was introduced for FDI upto\_\_ % which was later extended to nearly all industries except the reserved ones, under New Industrial Policy.
- (a) 75 (b) 100
- (c) 51 (d) 49
76. The MSP of all 23 mandated crops is fixed at \_\_\_\_\_ time(s) of all India weighted average cost of production.
- (a) 1 (b) 1.5
- (c) 2 (d) 3
77. The Government has allowed\_\_\_\_\_% FDI in marketing of food products and in food product e-commerce.
- (a) 51 (b) 49

- (c) 75 (d) 100
78. 'Make in India' initiative was launched in  
 (a) 2014 (b) 2019  
 (c) 2020 (d) 2022
79. \_\_\_\_\_ % FDI under automatic route is permitted for the sale of coal and coal mining activities.  
 (a) 51 (b) 49  
 (c) 75 (d) 100
80. Which sector is the fastest growing sector in India?  
 (a) Agriculture (b) Manufacturing  
 (c) Service (d) None of these
81. Which sector has the highest labour productivity?  
 (a) Agriculture (b) Manufacturing  
 (c) Service (d) None of these

**ANSWER KEY**

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

## FAST TRACK NOTES

1. As per all the classical economists - Smith, Say, Marshall, Pigou, Robbins and Samulson- Mins. Economics is a science.
2. Microeconomics is also known as Price theory.
3. Most of the classical economist discussed micro part of the economics
4. Points to remember for definition of economics by Adam Smith and J. B. Say - (loo
  - (a) Economics is mainly study of wealth
  - (b) Main problem faced by any economy is creation of wealth
  - (c) Creating and equitably distributing it can help the economy solving the problems of poverty and unemployment
  - (d) They concentrated on material wealth only and ignored creation of immaterial wealth
  - (e) They also ignored social welfare.
5. Points related to definitions of **Marshall and Pigou** -
  - (a) According to them Economics is study of wealth + Mankind
  - (b) They focused on social welfare. And according to them economics should be concerned with welfare activities.
  - c) Their definitions are of normative science.
  - (d) They also ignored immaterial wealth like services
  - (e) Robbins criticized their definitions on the ground that it is very difficult to state which things would lead to welfare and which will not.
6. Points related to Robbins definition of economics:
  - (a) According to Robbins Economics is Choice making
  - (b) He is first economist who said - Ends are unlimited, Means are scarce and means have alternative uses.
  - (c) Robbins does not differentiate between material and non-material and and between welfare and nonwelfare.
  - (d) According to him, any activity which has price and can satisfy the wants of the consumers, should be subject matter of economics.
  - (e) it is not the duty of the economics or economists to suggest that which activity is good or bad.
  - (f) According to him, "Economics is neutral between ends."
  - (g) Few economists have said that Robbins's definition is impersonal and colourless because his definition is completely positive science and it does not consider normative aspects, his definition is silent on macro-economic aspects and he did not cover the theory of economic growth and development.

7. Points related to definition of economics by Paul Samuelson -
  - (a) Samuelson and Robbins are same on the ground of- Choosing the ends, Alternative use and scarce resources.
  - (b) Samuelson goes one step further and says that resources can be created. (This is the point of difference between definitions given by Samuelson and Robbins).
8. Prof **Henry Smith** - "the study of how a civilized society one obtains the share of what other people have produced and of how the total product of society changes and is determined."
9. In micro economics, we study the individual firm aspects and demand supply, production costs or different types of markets and pricing whereas; in macroeconomics we study aspects of economy.
10. Economics is Science as well Arts.
11. Economics is science because of the following reasons:
  - a. It is systematized body of knowledge which studies the relationship of cause and effect (eg: When price increases, quantity demanded falls) atalmuncoe Isole
  - b. It is capable of measurement (eg. Elasticity measures the amount of change in quantity demanded)
  - c. It has its own methodological apparatus (eg. Elasticity, econometric tools and other statistical tools)
  - d. It has ability to forecast (eg. Budget, Monetary policy etc.)
12. Economics is NOT a perfect science.
13. Economics is not a perfect science because of the following reasons:
  - a. Economists do not have same opinion about a particular event
  - b. Economic behavior is highly unpredictable
  - c. Money itself is a dependent variable
  - d. It is NOT possible to make correct predictions about the behavior of economic variables.
14. Economics is science in methodology and arts in application.
15. A positive or pure science analyses cause and effect relationship between variables BUT IT DOES NOT PASS ANY VALUE JUDGEMENT.
16. Positive Economics simply states the facts and uses empirical evidence. It focuses on "What is" en aspect.
17. NORMATIVE science passes value judgment on the activity.
18. Normative economics has ethical aspects; it provides opinion/suggestions.
19. Normative economics is concerned with welfare propositions.

20. Deductive method is also called abstract, analytical and priori method
21. Under deductive methods, assumptions are framed and economist's personal judgment, gut feelings probability and experience play an important role.
22. Deductive method moves from general to particular.
23. Under Inductive method, conclusions are drawn on the basis of collection and analysis of facts relevant to the enquiry.
24. Inductive method moves from the particular to general.
25. Inductive method is statistical in nature.
26. Inductive method leads to more precise, exact and measurable conclusions.
27. Inductive method underpins the importance of relativity of economic laws and it shows that bas generalisations are valid only under certain conditions.
28. Inductive method has demerits like risk of hurried conclusions having drawn from an insufficient number of facts, difficulties involved in the collection of facts and the fact that observation and experimentation have very limited application in a science that delas with human activities.
29. Production possibility curve assumes that - productive resources are fixed, resources are fully and efficiently employed and technology is same.
30. Due to increasing opportunity cost of producing one output, shape of the PPC is concave to the origin.
31. Increasing opportunity cost in PPC happens because - a given resource is more suitable for the production of one good than another.
32. If opportunity cost is constant, then shape of the PPC will be a straight line.
33. A production combination on the PPC shows that the economy is running efficiently.
34. A point inside the PPC indicates the underemployment or unemployment of the resources.
35. A point outside the PPC indicates the production possibility as NOT achievable or the resources have been over-utilized.
36. We move from inside the PPC to a point on the PPC, then there is:
  - a. Reduction in unemployment/underemployment
  - b. Reduction in wastage of resources
  - c. Production process has become more efficient etc.
37. Reduction/increase in Unemployment/underemployment DOES NOT cause shift in PPC.
38. Upward/outward/rightward shift of the PPC indicates that -
  - a. Economy has progressed,
  - b. Capital has been formed,

- c. Resources have been increased,
- d. Investment has increased,
- e. GDP has increased, and
- f. Technology has improved.

39. Inward/downward shift of the PPC indicates that

- a. The state of recession or depression,
- b. Economy has slowed down,
- c. Capital deterioration,
- d. Decline in investment,
- e. Very high consumption in the economy
- f. National income has declined
- g. War like situation
- h. Natural calamities or
- i. There may be technological deterioration etc.

40. Characteristics of Capitalist economy

- a. The right of private property
- b. Freedom of enterprise
- c. Freedom to choice by the consumers (consumers are sovereign)
- d. Profit motive
- e. Sever competition
- f. Inequalities of income

41. In a capitalist economy the question regarding what to produce is ultimately decided by consumers who show their preferences by spending on the goods which they want.

42. In capitalist economy, "how to produce" is decided by the relative prices of factors of production.

43. In short, the central economic problems are answered by "Price mechanism" or "market mechanism" in a capitalist economy.

44. Demand depends upon - desire, means to purchase and willingness to purchase.

45. Prime factor to induce demand is "Desire".

46. Price ↑ then Quantity Demanded ↓

47. Price of Complementary product ↑ then demand ↓

48. Price of Complementary product ↓ then demand ↑





49. Price of the substitute product then demand
50. Price of the substitute product ↓ then demand ↓
51. Income of the consumer ↑ then demand ↑
52. Change in taste and preferences leads to change in demand.
53. Other factors such as size of population, composition of population and distribution of income also affect demand.
54. LAW of Demand says that if Price of a good increased its quantity demanded decreases, keeping other things constant.
55. Law of demand establishes relationship between the price of a commodity and its quantity demanded.
56. Ceteris Paribas = When other things are constant.
57. Demand curves slope downward because of mainly substitution effect and income effect.
58. Substitution effect:- When price increase, consumers shift their consumption towards the substitute, products and therefore the quantity demanded of the earlier good decreases and vice versa.
59. Income Effect:- When price of the product declines the real income/purchasing power of the consumer increases and vice versa.
60. Exceptions to the law of demand:
  - (a) conspicuous goods - diamond etc.
  - (b) Giffen goods
  - (c) Goods of conspicuous necessities such as television, refrigerator etc.
  - (d) future expectations about prices
  - (e) demand for necessities
  - (f) speculative goods.
61. Veblen effect/prestige goods effect = If the commodity is expensive some consumers think that it has got more utility.
62. Giffen goods are those goods which are considered inferior by the consumers and which occupy a substantial place in consumer's budget.
63. Giffen goods show direct price-demand relationship.
64. Expansion / Contraction in quantity demanded = Movement along the demand curve = change in quantity demanded = happens due to change in the price of that product
65. Expansion = quantity demanded increases due to decline in the price of the commodity
66. Contraction = quantity demanded declines due to increase in the price of the commodity

67. Shift in demand curve = change in demand = happens due to change in factors OTHER THAN PRICE of the commodity.
68. Due to change in income of consumer, Change in price of the related commodity, due to change in taste and preferences there will be shift in demand (change in demand).
69. Elasticity: the responsiveness of the quantity demanded of a good to changes in one of the variables. When we say Price elasticity of demand then we measure responsiveness of the quantity demanded of a good to changes in price. Similar is the case with Income with consumer and change in price of the related commodity.
70. FORMULAE of PRICE ELASTICITY of DEMAND:  

$$E_p = \% \text{ change in quantity demanded} / \% \text{ change in price}$$
 (note: please apply this formula when % figures are given or when co-efficient of elasticity is to be found out)
71. Arc Elasticity  $E_p = \frac{(P_1+P_2)}{(Q_1+Q_2)} \times \frac{(Q_2-Q_1)}{(P_2-P_1)}$  [note- please apply this formula when two price and two quantity figures are given ]
72. [NOTE: Suppose elasticity value comes with negative sign as say -2 and in the option both the options  
 For example +2 and -2 are given then mark your answer as +2 because elasticity is not considered as negative. BUT when co-efficient of elasticity is asked then mark with sign i.e if answer is -2 then mark with negative sign]
73. Perfectly elastic demand curve: Horizontal to quantity axis (i.e. X-axis)
74. Perfectly Inelastic demand curve: Vertical to Price axis (i.e. Y-axis)
75. Elasticity = 0: Perfectly Inelastic demand curve
76. Elasticity = infinity: Perfectly elastic demand curve
77. Elasticity > 1: Relatively elastic demand curve
78. Elasticity < 1: Relatively inelastic demand curve
79. Elasticity = 1: Unit elastic demand curve
80. When as result of change in price of a good, the total expenditure on the good remains the same, the price elasticity for the good is equal to unity. (Use arc elasticity to prove it)
81. When as result of increase in price of a good, the total expenditure on the good falls or when as result of decrease in price, the total expenditure made on the good increases, the price elasticity for the good is greater than unity. (Use arc elasticity to prove it)
82. When as result of increase in price of a good, the total expenditure made on the good increases or when as a result of decrease in price, the total expenditure made on the good falls, price elasticity of demand is less than unity. (use arc elasticity to prove it)

**SUMMARY TABLE OF OUTLAY METHOD OF EXPENDITURE:**

Price	Total	Elasticity
-------	-------	------------

	<b>expenditure</b>	
↑	Same	=1
↓	Same	=1
↑	↓	>1
↓	↑	>1
↑	↑	<1
↓	↓	<1

83. More no of substitutes = Higher value of elasticity; Less no of substitutes = Lower elasticity
84. Lower the position of a commodity in a consumer's budget = Lower elasticity of the commodity
85. Luxury Goods = higher elasticity
86. Necessity product = very low or zero elasticity
87. More number of uses of a commodity - higher elasticity sofa
88. Generally, in the short time period elasticity is lower and in longer time period elasticity is higher
89. Commodity which are consumed by the consumers due to habit, have lower or zero elasticity
90. The demand for those goods which are tied to others is normally inelastic as against those whose is of autonomous nature.
91. Very high or very low price range = relatively inelastic demand; Middle price range = relatively higher elasticity.
92. If the proportion of income spent on goods remains the same as income increases, then income elasticity for the goods is equal to one. (use % change in Q/% change in Income to prove it)
93. If the proportion of income spent on a goods increase as income increases; then the income elasticity for the goods is greater than one. (use % change in Q/% change in Income to prove it)
94. If the proportion of income spent on goods decreases as income rises, then income elasticity for the goods is less than one. (use % change in Q/% change in Income to prove it)

**SUMMARY TABLE OF INCOME ELASTICITY:-**

<b>Income</b>	<b>Proportion of income spent</b>	<b>Income elasticity</b>
↑	Same	=1
↑	↑	>1
↑	↓	<1

95. Income elasticity of a normal goods of necessity = less than one

96. Income elasticity of a normal goods of necessity = Zero (eg. Medicine for patients)
97. Income elasticity of luxurious goods = greater than one
98. Income elasticity of inferior goods = absolute value is less than one with negative sign.
99. Income elasticity of goods which are of very low price and necessary = zero
100. If two goods are substitutes, their cross elasticity will be positive."
101. If two goods are perfect substitute then cross elasticity will be infinity..
102. If two goods are totally unrelated, cross elasticity between them will be zero.
103. If two goods are complementary to each other, then cross elasticity between them is negative.
104. Producer's goods = those goods which are used for the production of other goods either consumer goods or producer goods themselves eg. Machines, locomotives etc.
105. Consumer's goods = those goods which are used for final consumption.
106. Durable goods = those which can be consumed more than once over a period of time (eg Television)
107. Non-durable goods which cannot be consumed more than once. (milk, fruits etc.)
108. Derived demand = when a product is demanded consequent on the purchase, of a parent product. (eg: demand for cement)
109. Autonomous demand = If the demand for a product is independent of demand for other goods.
110. Industry demand = total demand for the products of a particular industry (eg. Total demand for steel in the country)
111. Company demand = the demand for the products of particular company.
112. Utility is the want satisfying power of a commodity. It varies from person to person.
113. Utility is different from usefulness.
114. In economics, the concept of utility is ethically neutral.
115. Utility is an anticipated satisfaction by the consumer.
116. Marginal Utility approach was advocated by Marshall
117. According to Marshall, Utility is considered to be a cardinal concept i.e. it is a measurable and quantifiable concept.
118. The Utility approach assumes that marginal utility of money is constant.
119. Total Utility: sum of the utility derived from different units of a commodity.
  - a. Total utility is also called as 'Value in use'
120. Marginal Utility; additional utility derived from additional unit of a commodity. Mathematically, act

- a. MUN TUn - TUn-1
- b. Marginal utility is also called as 'Value in exchange' 120. Relationship between total utility and marginal utility:
  - a. When the TU rises the MU diminishes.
  - b. When the TU is maximum then MU is Zero
  - c. When TU is diminishing then the MU is negative.

121. Law of Diminishing Marginal Utility: The additional benefit which a person derives from a given increase in stock of a thing diminishes with every increase in the stock that he already has."

122. Law of DMU assumes that-

- (a) Units being identical
- (b) Units being standard units
- (c) No time gap between consumption of two units
- (d) DMU may not be applicable in case of gold cash etc.
- (e) Shape of the utility curve may be affected by the presence of substitute or complementary products.

123. Consumers' Surplus = What price consumer is willing to pay - price actually paid

OR, CS = MU - Actual Price paid

124. The consumer is in equilibrium when  $MU = P$  (it is assumed that perfect competition prevails)

125. (a) Consumer surplus is highest in the case of necessities.

126. According to Prof Hick, Consumer Surplus is the money income gained by a man arising from a fall in price of goods he purchases.

127. Limitations of Consumers' Surplus-

1. Difficult to measure precisely as it is difficult to measure MU
2. Not measurable in case of necessities
3. It is affected by presence of substitutes
4. Not applicable in case of goods of prestige values
5. Consumer's surplus cannot be measured in terms of money because MU of money changes

128. Indifference curve represents all those combinations of goods which give same level of satisfaction.

129. Indifference curve approach is an ordinal concept. It was given by Hicks and Allen.

130. Assumptions of IC approach:-

- a. The consumer is rational and possesses full information

- b. The consumer is capable of ranking all conceivable combinations of goods according to the satisfaction they yield.
- c. If the consumer prefers combination A to B, and B to C, then he must prefer combination A to C.
- d. If combination A has more commodities than combination B, then A must be preferred to B.

131. Marginal rate of substitution: It is the rate at which the consumer is ready to exchange a good for another. Normally, MRS falls, as we exchange more of one additional unit of good for another.

132. If goods are perfect substitutes then MRS shall be constant.

133. Indifference curve is convex to origin because MRS falls.

134. For two perfect substitutes, indifference curve is a straight line.

135. When two goods are perfect complementary goods, indifference curve will be L-shaped.

136. Indifference curves slope downward to the right.

137. Indifference curves never intersect each other.

138. A higher indifference curve represents a higher level of satisfaction than the lower indifference curve.

139. Budget line: it shows all those combinations of two goods which the consumer can buy spending his given money income on the two goods at their given prices.

140. A point inside the budget line represents Under-spending; whereas, a point outside the budget line represents "not able to purchase the desired quantity of goods with the given income".

141. Consumer shall be in equilibrium at the point where Budget line is tangent to the indifference curve. There can be only one such point of equilibrium.

142. If price increases, Supply of the goods increases

143. If price of another product increases then quantity supplied of the first product may fall

144. Rise in cost of factor of production will lead to decrease in quantity supplied.

145. Improvement in state of technology may lead to increase in supply of goods.

146. Favorable government policy may lead to increase in supply of goods.

147. Shift in supply curve = Increase or Decrease in supply = happens due to change of factors other than Price.

148. Movement on the supply curve = Increase or decrease in the quantity supplied = happens due to change in price.

[Formula for Elasticity of supply are similar to those of elasticity of demand]

149. In economics production is

- Any economic activity for creation/addition of utility

- Any economic activity to produce goods and services
- Creation or addition of utility

150. Form Utility: changing the form of the natural resources

151. Place utility: Changing the place of the resources

152. Time utility: Making available materials at times when they are not normally available

153. Personal utility/service Utility: Making use of personal skills in the form of services

154. Knowledge utility- Creation of utility because of knowledge

155. Possession utility - Cr -Creation of utility because of changing the possession

156. Land: All free gifts of nature and includes air, water, wind, natural gestation etc.

157. Land is strictly limited in supply.

158. The supply of land is perfectly inelastic from the point view of the economy. Relatively elastic- point of view of a firm

159. Properties of land cannot be destroyed

160. Land is immobile.

161. Land is specific factor of production.

162. Labour: Mental or physical exertion directed to produce goods or services.

163. Labour is highly perishable.

164. Labour is inseparable from the laborer himself.

165. Labour power differs from laborer to laborer.

166. All labour effort is not productive.

167. Capital is a stock concept whereas, income is flow concept.

168. Both land and labor are NOT produced factors of production but primary or original factors of production.

169. Capital is NOT a original or primary factor of production but Produced factor of production.

170. Stages of capital formation are- Savings, Mobilization of savings, Investment

171. Entrepreneur (another factor of production) performs the functions of (a) initiating a business enterprise and resource co-ordination, (b) Risk bearing or ring (c) innovations

172. Law of variable proportion is applicable when some factors are variable and at least one is fixed. (or some are fixed and some are variable)

173. To explain the law of variable proportion graphically at least one variable has to be present whereas, other may be fixed in nature.

174. The law of variable proportion is applicable in the short run when all the factors are not variable.

175. The graph of the law of variable proportion considers variable input on the x-axis and TP, AP and MP on the y-axis.
176. Total Product (TP): total output resulting from the efforts of all the factors of production combined together at any time.
177. Average product (AP): total product per unit of the VARIABLE FACTOR
178. Marginal Product (MP): Change in the total product per unit change in the quantity of variable factor.
179. When average product rises as a result of an increase in the quantity of variable input, MP is more than the AP.
180. When AP is max, MP is equal to AP i.e. MP cuts AP at max of AP.
181. Corresponding to max of MP there is a point on the TP curve which is called Point of inflexion.
182. Up to point of inflexion, TP increases with the increasing rate and after the point of inflexion TP increases with the declining rate.
183. When AP falls, MP is less than AP.
184. Law of Variable proportion- When we combine variable factor with the fixed factor, then TP first increases with increasing rate and then with decreasing rate, it reaches maximum and eventually declines.
185. In law of variable proportion, internal proportion of factors of proportion is variable.
186. Assumptions of Law of Variable proportion:
- Technology remains constant
  - All the variable units are identical in efficiency
  - Some quantities are fixed.
  - Proportion of fixed and variable factor changes as we employ more variable input
  - Only physical inputs and outputs are considered and the economic profitability in monetary terms.
187. Stage 1 of the Law of Variable Proportion:
1. TP increases with the increasing rate first and then with decreasing rate
  2. MP rises first, reaches its maximum and starts falling in this stage
  3. MP is more than AP
  4. AP is continuously rising in this stage
  5. Stage 1 ends where AP is maximum i.e. where MP cuts AP
  6. As fixed factor is much more than the variable factor, there is no optimal combination of factors and fixed factors remain under-utilized.



This stage is also known as "Law of increasing return" or "Law of increasing return to factor"

188. Stage 2 of the Law of Variable proportion:

1. Stage 2 starts after max of AP.
2. TP is rising with diminishing rate
3. In this stage, MP is less than AP
4. Both MP and AP are falling in this stage
5. At the end of the stage 2, TP is maximum and MP is zero.
6. Stage 2 is called "STAGE OF OPERATION"
7. There is optimal combination of fixed and variable factor
8. This stage is also known as "law of Decreasing return/diminishing Return" or "law of Diminishing /decreasing return to factor"

189. Stage 3 of Law of Variable Proportion: TP and AP are falling AND MP is negative.

190. Stage 3 is also known as "Law of negative return" or "Law of negative return to factor"

191. Return to scale is applicable in the long run.

192. "Scale" means "plant size"

193. Returns to scale mean "how output will change in response to change in input"

194. Return to scale is applicable when all the factors of production are variable.

195. In analyzing return to scale, all the factors of production are increased in the same proportion so that internal proportion of the factors of production remains same.

196. There are 3 returns to scale- Increasing returns to scale, Constant returns to scale, decreasing return to scale.

197. Under increasing return to scale, all the factors of production are increased by a certain percentage and output increase by more than proportionately. For example- if factors of production are increased by 10% then the output shall increase by more than 10%

198. Under Constant return to scale, output increases by the same percentage as far as factors of production are increased. For example, if factors of production are increased by 10% then the output shall also increase by 10%.

199. Under decreasing return to scale, output increases by less than proportionate increase in the factor of production. For example- if factors of production increase by 10% then output shall increase by less than 10%

200. Production function for economy as a whole corresponds to production function exhibiting Constant Returns to Scale

201. An individual firm passes through a long phase of Constant Return to Scale.

202. Constant Returns to Scale is also known as "Linear Homogeneous Production Function"

203. Increasing return to scale occurs because factors of production are INDIVISIBLE.

204. Internal Economies of Scale:

- Technical economies of scale
- Managerial Economies of Scale
- Commercial economies of scale
- Financial economies of scale
- Risk bearing economies of scale.

205. External Economies of Scale

- Cheaper raw material and capital requirement
- Technological external economies
- Development of skilled labour
- Growth of ancillary industry
- Better transportation and marketing facilities.

206. Accounting cost: all the payments done

207. Economic cost: Includes the normal return on money capital invested by the entrepreneur himself in his business, the wages or salary not paid to the entrepreneur but could have been earned if the services had been sold somewhere else.

208. Economic cost = Accounting cost + implicit cost OR opportunity cost OR implied cost

209. Accounting profit = Revenue - accounting cost

210. Economic profit = Revenue - Economic Cost

211. Economic profit = Accounting profit - Opportunity/implied/implicit cost

(i.e. Economic profit will be less than the accounting profit if opportunity cost is involved.)

212. Cost function establishes the relationship between cost of a product and the various determinants of cost.

213. Outlay cost = Actual expenditure

214. Opportunity cost = cost of forgone opportunity.

215. Direct cost = cost that are readily identified and are traceable to a particular product, operation or plant.

216. Indirect cost = not readily identified nor visibly traceable to specific goods, services, operations.

217. Fixed cost = Costs which do not vary with output up to a certain level of activity.

218. Variable cost = costs which are function of output in the production period.

219. Completely Fixed cost curve is horizontal to Quantity axis (x-axis)

- 220.Total cost and total variable cost curves are inverted S-shaped.
- 221.Completely variable cost is a straight line upward sloping and it has slope = 1 (passes through origin)
- 222.TC = TFC + TVCs
- 223.ATC=AFC+AVC
- 224.Average Fixed cost curve (AFC) falls continuously BUT NEVER touches X-axis as well as Y axis.
- 225.AFC curve is Rectangular hyperbola.
- 226.MC, ATC and AVC have U-shape i.e. first, they decrease and then start increasing:
- 227.Minimum point of MC curve comes before the min of AVC or ATC comes.
- 228.Minimum point of AVC comes before the min of ATC comes.
- 229.MC curve cuts ATC and AVC at their minimum points.
230. When average cost falls as result of an increase in output, marginal cost is less than average cost.
- 231.When average cost rises as result of an increase in output, marginal cost is more than average cost
- 232.Long run average cost curve is also called "Envelope Curve" or "planning Curve."
- 233.Long run AC declines because of economies of scale and it rises because of diseconomies of scale.
- 234.LAC is U-shape assumes that state of technology remains constant.
- 236.U-shape LAC indicates that there can be only one plant size which will have minimum cost.
- 237.L-shape LAC indicates that there can be more than one plant sizes for which cost can be minimum.
- 238.Very short period market - Market in which the commodities are perishable and supply of commodities cannot be changed at all.
- 239.Short period market - this market is slightly longer than the very short period market. In this market, the supply of the output can be increased by increasing the variable factors to the given fixed capital requirement.
- 240.Long-period market - In this market, time available is adequate for altering the supplies by altering even the fixed factors of production.
- 241.Very long-period market or secular period - When secular movements are recorded in certain factors over a period of time. The factors such as even size of population, capital supply, supply of raw material etc. can be changed
- 242.Spot market - Goods are physically bought and sold on the spot.
- 243.Future market transactions which involve contracts of the future date.
- 244.Regulated market = Transactions are statutorily regulated.
- 245.Unregulated market = Free market with no restriction on transaction.
246. Relationship among MR, AR and Elasticity:  $MR = AR \times [(e-1)/e]$

- (a) Therefore, when elasticity is zero or infinity, MR is not defined
- (b) When elasticity is one, then MR is zero and therefore TR is at maximum
- (c) When elasticity is less than one, MR is negative and therefore TR is declining.
- (d) When elasticity is more than one, MR is positive and thus TR is increasing.

247. In the short run any firm must recover at least its average Variable cost i.e. minimum price charged should be at least equal to AVC i.e.  $P(\min) = AVC$

248. PAVC is also known as short run shut down point. Below this level of price no firm would like to produce and would shut down the operation.

249. If  $MR > MC$ , the firm will get additional revenue by selling one extra unit of output MORE than what additional cost it will incur by producing that out and THEREFORE, the firm will EXPAND the output.

250. If  $MR < MC$ , the firm will get additional revenue by selling one extra unit of output LESS than what additional cost it will incur by producing that out and THEREFORE, the firm will CONTRACT the output.

251. If  $MR = MC$ , the firm may be said to be in equilibrium as there is no incentive to the firm in expanding the output or contracting it.

252. Shutdown Points in SHORT RUN:  $P = AVC$ ;  $AR = AVC$ ;  $TR = TVC$

253. Shutdown points in LONG RUN:  $PAC$ ;  $AR = AC$ ;  $TR = TC$

254. If as a result of an increase in demand, there is an increase in equilibrium price, as a result of which the quantity sold and purchased also increased.

255. With the decrease in demand, there is decrease in the equilibrium price and quantity demanded and supplied.

256. As result of an increase in supply the equilibrium price will go down and the quantity demanded will go up.

257. Decrease in supply causes an increase in the equilibrium price and a fall in quantity demanded.

258. If both the supply and demand curves shift rightward with equal extent, there will NOT be any change in the equilibrium price but quantity will expand.

259. If Demand curve shifts rightward more than the supply curve then equilibrium price and quantity both increase.

260. If supply curve shifts rightward more than the demand curve then equilibrium price comes down but quantity expands.

261. Under perfect competitive market - (a) Large number of buyers and sellers (b) products are homogeneous or identical (c) Free entry and exit (d) Perfect knowledge of the market environment (d) Almost no transportation cost (e) sellers and buyers are not aware of each other (f) Equilibrium price is set up by the industry (g) perfect competitive industry is price decider/giver and a price competitive firm is price taker (h) No individual firm can influence the

equilibrium price and will be selling any quantity at the given equilibrium price only (i) a perfect competitive firm can change its output only to reach its equilibrium (j) short run equilibrium or long run equilibrium profit/loss depend purely on the individual firm's cost curves.

- 262.No Transportation cost is NOT the essential features of Perfect Competitive industry
- 263.Demand curve and supply curve of the perfect competitive industry downward and upward sloping.
- 264.A perfect competitive firm is price taker and sells any amount of output at given price.
- 265.Demand curve of a perfect competitive firm is a STRAIGHT LINE HORIZONTAL TO X-AXIS (quantity axis)
- 266.Price elasticity of perfect competitive firm is perfectly elastic.
- 267.For a perfect competitive firm:  $P = AR = MR$
- 268.For a perfect competitive firm, demand curve is also price line, AR curve or MR curve
- 269.Supply curve of a perfect competitive firm is depicted by THAT PORTION OF MC WHICH is ABOVE MINIMUM OF AVC (i.e. above shut down point)
- 270.Short run equilibrium of the Perfect competitive Industry = where demand and supply curve cut each other.
- 271.Short run / long run equilibrium condition of the perfect competitive firm:- (1)  $MR = MC$  (necessary condition, 1st Order condition) (2) MC curve should cut MR curve from below (2nd order condition, Sufficient condition).
- 272.Status of a perfect competitive firm in the short and long run while in the equilibrium:

	Condition	Short Run	Long Run
Supernormal Profit	$AR > AC$	Yes	No
Normal Profit	$AR = AC$	Yes	Yes
Loss	$AR < AC$	Yes	No

- 273.A perfect competitive firm, IN THE LONG RUN, operates at minimum point of average cost curve (optimum point)
- 274.a) The AR curve & firm demand curve are same in the case of perfect competition.
- 275.b) Excess capacity is not found in perfect competition.
- 276.Long run equilibrium of the industry is said when = (a) all the firms are earning just normal profits (b) all the firms are in equilibrium (c) there is no further entry or exit from the market (d) The output is produced at the minimum cost (c) consumers pay the minimum possible price which just covers the MC i.e.  $AR = P = MC$  (c) Plants are used at full capacity (d) No wastage of resources (e)  $LAR = LMR = P = LMC - LAC = SMC = SAC$ .
- 277.A monopoly industry is characterized by:- (a) Single seller (b) Restriction to entry (c) No close substitutes.

278. AR and MR, for monopoly firm, both are negatively sloped.
279. For a monopoly firm, MR curves lies half-half between the AR curve and Y-axis i.e. it cuts the horizontal line between Y axis and AR into two equal parts.
280. There is absence of supply curve for a monopoly firm. For a monopoly firm, AR CANNOT be zero, BUT MR can be zero or negative.
281. Equilibrium condition for a monopoly firm = (a)  $MR = MC$  (b) MC curve should cut MR curve from below
282. In the Long-Run, a monopoly firm NEED NOT operate at the minimum point of LAC like Perfect competitive firm. It can operate any point on the LAC where its profit is maximum.
283. Status of a monopoly firm in the short and long run while in the equilibrium:

	Condition	Short Run	Long Run
Supernormal Profit	$AR > AC$	Yes	No
Normal Profit	$AR = AC$	Yes	Yes
Loss	$AR < AC$	Yes	No

284. Price discrimination, for a monopoly firm, is said to exist when the monopoly firm charges different prices for same goods or services to different customers.
285. Conditions for Price discrimination- (a) At least some control over the supply of product (b) the firm should be able to divide the market in different sub-markets (c) The price elasticity of demand in the different sub-markets should be different (d) there should not be inter-market selling buying.
286. Monopolist charges higher prices where price elasticity is low and lower prices where price elasticity is high.
287. 1st degree price discrimination- When different price is charged for different unit of goods. There is no consumer surplus left in 1st degree price discrimination.
288. 2nd degree price discrimination - When the monopolist charges different prices for different lot sizes.
289. 3rd degree of price discrimination- When the monopolist charges different prices in different markets.
290. Features of a monopolistic market- (a) Large number of buyers (b) Differentiated product (c) Free entry and exit (d) Non-price competition
291. Both AR and MR curve, for a monopolistic firm are downward sloping.
292. Demand curve of a monopolistic firm is more elastic than that of monopoly firm.
293. Condition for the equilibrium of a monopolistic firm- (a)  $MR = MC$  (b) MC curve should cut MR curve from below.
294. Status of a perfect competitive firm in the short and long run while in the equilibrium:

	Condition	Short Run	Long Run
Supernormal Profit	$AR > AC$	Yes	No
Normal Profit	$AR = AC$	Yes	Yes
Loss	$AR < AC$	Yes	No

295. In the long run, for a monopolistic firm, there is excess capacity i.e. plant does not operate at full capacity level like a perfect competitive firm.
296. Features of an oligopoly industry: (a) Interdependence (b) significant advertising and selling cost (c) Group behavior.
297. There is no definite demand curve for an oligopoly
298. Kinked demand curve is one of the demand curve feature seen for a oligopolist.
299. The Kinked Demand curve is kinked at the level of the prevailing price.
300. Price rigidity is found where the demand curve is kinked.
301. Segment of the demand curve above the prevailing price level is more elastic and the segment of the demand curve below the prevailing price is less elastic.
302. Kinked demand curve is based on the assumption that if a firm lowers the price of its product, its competitors will follow him and will accordingly lower prices, whereas if he raises the price above the prevailing level, its competitors will not follow its increase in price. Types of markets:
- (a) Perfect market (b) Monopoly market
- (c) Monopolistic competition (d) Oligopoly market.
303. Types of Oligopoly:
- (a) Pure or perfect oligopoly (b) Imperfect Oligopoly (c) Open oligopoly
- (d) Closed oligopoly (e) Collusive oligopoly (f) Competitive oligopoly
- (g) Partial oligopoly (h) Full oligopoly (i) Syndicated oligopoly
- (j) Organized oligopoly.
304. Chronic excess capacity is found in monopolistic competition.
305. The term 'Business cycle' refers to the fluctuating levels of economic activity over a period of time.
306. The trough of a business cycle occurs when aggregate economic activity hits its lowest point.
307. Economic expansions are followed by economic contractions in a typical business cycle.
308. The different phases of a business cycle do not have the same length and severity.
309. Business cycles do not have uniform characteristics and causes.

310. During 1920s, UK saw rapid growth in gross domestic product, production levels and living standards. It is an example of business cycle.
311. Due to bursting of Information Technology bubble stock markets crashed and countries began feeling of downturn in their economies. It is an example of business cycle.
312. The Sub-prime crisis led to chain effect and it had worldwide impact. It is an example of business cycle.
313. The cycle business has seen a slowdown in growth over a period of time. It is not an example of business cycle.
314. Fluctuations in effective demand, investment and government spending may be considered a cause of business cycle.
315. When aggregate economic activity is increasing, the economy is said to be in expansion.
316. Rising Interest Rates, Falling Investment Spending and aggregate demand are found in Recession
317. Turning points of the business cycle are peak and Depression.
318. The most probable outcome of an increase in the money supply is interest rates to fall, investment spending to rise, and aggregate demand to rise.
319. An increase in Government spending would cause the aggregate demand curve to shift to the right.
320. A variable that tends to move in advance of aggregate economic activity is called a Leading Indicator.
321. A variable that tends to move consequent on aggregate economic activity is called a Lagging Indicator.
322. A variable that tends to move along with the level of aggregate economic activity is called a coincident Indicator.
323. Leading economic indicators are generally used to forecast economic fluctuations.
324. New orders for plant and equipment is not an example of coincident indicator.
325. Prime rate is not a variable in the index of leading indicators.
326. According to J M Keynes, Business Cycles occurs due to fluctuation in aggregate effective demand.
327. According to Hawtrey, Business Cycles occurs due to Unplanned changes in the money supply,
328. According to Pigou, Business Cycles occurs due to waves of optimism or pessimism.
329. According to Schumpeter, Business Cycles occurs due to onset of Innovations.
330. Great Depression of 1930, Dot. Com bubble burst and Global Economic Crisis (2008-09) have their origin in US.
331. National Income Accounting was pioneered by Simon Kuznets and Richard Stone.
332. Nominal GDP is known as GDP at current prices, whereas Real GDP is known as GDP at constant prices.



333. GDP deflator or Price Index =  $(\text{Nominal GDP} / \text{Real GDP}) * 100$
334. Gross to Net = Deduct Depreciation from Gross
335. Domestic to National = Add NFIA to Domestic
336. Market Price to Factor Cost Deduct Net Indirect Taxes from Market Price
337. Personal Income = NI + Income received but not earned - Income earned but not received.
338. Disposable Personal Income = Personal Income - Personal Income Taxes - Non Tax Payments
339. Private Income = Factor income from net domestic product accruing to the private sector + Net factor income from abroad + National debt interest + Current transfers from government + Other net transfers from the rest of the world.
340. As per Value Added Method, Gross Value Added (GVAMP) or GDPMP = Value of Output - Intermediate consumption, where, Value of Output = Sales - Change in Stock
341. As per Income Method, National Income or NNPF = Compensation of employees + Operating Surplus (Rent + Interest + Profit) + Mixed Income of Self-employed + Net Factor Income from Abroad
342. As per Expenditure Method, National Income or NNPF = Final Consumption Expenditure + Gross Domestic Capital Formation + Net Exports - Depreciation - Net Indirect Taxes + NFIA
343.  $AD = C + I$  &  $AS = C + S$
344. If the aggregate demand for an amount of output is less than the full employment level of output, then we say there is deficient demand. Deficient demand gives rise to a 'deflationary gap'.
345. If the aggregate demand is for an amount of output greater than the full employment level of output, then we say there is excess demand. Excess demand gives rise to 'inflationary gap'.
346. Marginal propensity to consume (b) refers to increase in consumption expenditure with a unit increase in income.  $b = \Delta C / \Delta Y$
347. Multiplier refers to the phenomenon whereby increase in investment expenditure will lead to a proportionately larger change in the equilibrium level of national income.
348. In a Two sector model, equilibrium income  $(Y) = C + I$
349. In a Three sector model, equilibrium income  $(Y) = C + I + G$
350. In a Four sector model, equilibrium income  $(Y) = C + I + G + (X - M)$
351. Richard Musgrave separated the government functions into resource allocation, income distribution and macroeconomic stabilization.
352. Resource allocation refers to the way in which the available resources or factors of production are allocated among the various uses to which they might be put.
353. Distribution function is concerned with the distribution of income and wealth so as to ensure distributive justice, equity and wealth.

354. The stabilization function aims at eliminating macroeconomic fluctuations arising from suboptimal allocation. It is implemented through monetary policy or Fiscal policy.
355. Expansionary Fiscal Policy is adopted to lift recession and Contractionary Fiscal Policy is adopted to control high inflation.
356. Fiscal federalism, introduced by Richard Musgrave, addresses the distribution of governmental functions and financial responsibilities among government levels.
357. Article 280 of the Indian Constitution provides for formation of Finance Commission.
358. Market failure is a situation in which the free market leads to misallocation of society's scarce resources in the sense that there is either overproduction or underproduction.
359. Four major reasons for market failure are Market Power, Externalities, Public Goods and for market Incomplete Information.
360. Externalities are divided into Production and Consumption Externalities. These are further subdivided into positive and negative externalities.
361.  $\text{Social Cost} = \text{Private cost} + \text{External Cost}$
362. Paul A. Samuelson who introduced the concept of 'collective consumption good' in his path-breaking 1954 paper 'The Pure Theory of Public Expenditure' is usually recognized as the first economist to develop the theory of public goods.
363. Excludable goods are those which are purchased at a price, and depend upon willingness to purchase. Eg: Mercedes Car
364. Rivalrous goods are those which if consumed by one consumer, cannot be consumed by another consumer. Eg: Public Park
365. Tragedy of Commons refers to goods which are rivalrous but not excludable.
366. Government ensures well functioning market by creating physical infrastructure, ensuring competition framework, and provision of legal and regulatory framework.
367. Because of the social costs imposed by monopoly, governments intervene by establishing rules and regulations designed to promote competition and prohibit actions that are likely to restrain competition.
368. Government initiatives towards negative externalities direct control or regulations and market based policies.
369. Taxation on goods with negative externalities, like pollution, can decrease their consumption and poses challenges due to complex production. However, implementing efficient pollution taxes monitoring procedures, potential ineffectiveness with inelastic demand, and the risk of impacting employment and investments as producers may relocate to countries with lower taxes.
370. Government responses to merit goods include regulation, subsidies, and direct provision, aiming to enhance access and consumption of these socially beneficial goods.

371.The government budget is a document presented for approval and legislation by a government and contains estimates of the proposed expenditure for a given period and the proposed means of financing them.

372.In simple terms, Article 112 of the constitution says that every year, the President must share a statement with both houses of Parliament. This statement, called the "Annual Financial Statement," shows how much money the government of India plans to receive and spend in that year.

373.The list of budget documents presented to the parliament:

(a) Annual Financial Statement (AFS)

(b) Demands for Grants (DG)

(c) Finance Bill

(d) Statements mandated under FRBM Act:

i. Macro-Economic Framework Statement

ii. Medium-Term Fiscal Policy cum Fiscal Policy Strategy Statement

374.Government receipts are classified under two categories:

375.Revenue receipts which consists of tax revenue and non tax revenue.

376.Capital receipts which consists of debt receipts and non debt capital receipts.

377.Internal Debt Management Department (IDMD) of the Reserve Bank of India is responsible for managing domestic debt of the central government, 28 state governments, and two union territories.

378.Since 1997, RBI provides short-term credit (Ways and Means Advances) up to three months to state governments to address temporary cash flow mismatches.

379.External debt (bilateral and multilateral loans) is managed by the Department of Economic Affairs in the Ministry of Finance.

380.The Fiscal Responsibility and Budget Management (FRBM) was passed in 2003 to provide a legislative framework for reduction of deficit and thereby debt of the central government to a sustainable level.

381.Balanced Budget: Revenue = Expenditure

382.Deficit Budget: Revenue < Expenditure

383.Surplus Budget: Revenue > Expenditure

384.Fiscal Deficit = (Revenue Expenditure + Capital Expenditure) - (Revenue Receipts + Capital Receipts excluding borrowing)

385.Primary deficit = Fiscal deficit – Net Interest liabilities

386. Important definitions:

**Finance Bill** - The Bill produced immediately after the presentation of the union budget detailing the Imposition, abolition, alteration or regulation of taxes proposed in the budget.

**Outcome budget** - The outcome budget establishes a direct link between budget allocations and performance targets, providing a transparent assessment of how government funds contribute to development outcomes across various programs.

**Guillotine**-The parliament has very limited time for examining the expenditure demands of all the ministries. So, once the prescribed period for the discussion on demands for grants is over, the speaker of Lok Sabha puts all the outstanding demands for grants, whether discussed or not, to the vote of the house.

**Cut Motions** - Motions for reduction to various demands for grants are made in the form of cut motions seeking to reduce the sums sought by government on grounds of economy or difference of opinion on matters of policy or just in order to voice a grievance.

**Consolidated Fund Of India** - All revenues received, loans raised and all moneys received by the government in repayment of loans are credited to the Consolidated Fund of India and all expenditures of the government are incurred from this fund. Money can be spent through this fund only if appropriated by the parliament. The consolidated Fund has further been divided into revenue' and 'capital' divisions.

**Contingency Fund of India** - The contingency fund, controlled by the President, provides advances for unforeseen expenses to the government without prior legislative approval, and it is replenished by Parliament from the Consolidated Fund after the exigencies are addressed. Public Account - Is used in relation to all the fund flows where government is acting as a banker.

387. Fiscal policy is the deliberate policy of the government under which it uses the instruments of taxation, public expenditure and public borrowing to influence both the pattern of economic activity and level of aggregate demand, output and employment.

### 388. OBJECTIVES OF FISCAL POLICY

Achievement and maintenance of full employment,  
maintenance of price stability,  
acceleration of the rate of economic development, and  
equitable distribution of income and wealth

389.  $GDP = C + I + G + (X - M)$

390. Contra cyclical fiscal policy measures to correct different problems created by business-cycle instability are of two basic types namely, expansionary fiscal policy and contractionary fiscal policy.

391. Expansionary fiscal policy is designed to stimulate the economy during the contractionary phase of a business cycle and is accomplished by increasing aggregate expenditures and aggregate demand through an increase in all type of government spending and / or a decrease in taxes,

392. Contractionary fiscal policy refers to the deliberate policy of government applied to restrict aggregate demand and consequently the level of economic activity. In other words, it is fiscal policy aimed at eliminating an inflationary gap.

393. Instruments of Fiscal Policy are Taxes, Government expenditure, public debt and government budget.

394. Government expenditures include:

- a) **Current expenditures** to meet the day to day running of the government,
- b) **Capital expenditures** which are in the form of investments made by the government capital equipments and infrastructure,
- c) **Transfer payments** i.e. government spending which does not contribute to GDP because income is only transferred from one group of people to another without any direct contribution delude from the receivers.

395. Fiscal policy manages short-term economic conditions but long-term growth needs a focus on stimulating supply.

396. Limitations of fiscal policy include recognition lag, decision lag, implementation lag and impact lag.

397. Crowding out refers to the phenomenon where government spending substitutes private spending, thus reducing the impact of fiscal policy.

398. Fiat money indicates that the face value of the currency is greater than its **intrinsic value**.

399. Demand for money is demand for liquidity and demand to store value, which means that the demand for money is **derived demand**.

400. Fisher's version, also termed as 'Quantity theory of money', 'equation of exchange' or 'transaction approach' is formally stated as follows:

$$\underline{MV=PT}$$

401. Fisher extended the equation of exchange to include demand (bank) deposits (M') and their velocity (V) stated as follows:

$$\underline{MV+M'V'=PT}$$

402. The Cambridge version holds that money increases utility in the following two ways: **possibility of split-up of sale and purchase; Being a hedge against uncertainty.**

403. The Cambridge money demand function is stated as: **Md=k.PY**

404. According to Keynes, people hold money (M) in cash for three motives: **Transactions motive (L<sub>r</sub>=kY), Precautionary motive, and Speculative motive.**

405.  $r_n > r_c$  then bond prices ↑

406. Inventory models assume that there are two media for storing value: money and; an interest-bearing alternative financial asset. (Interest ↑ = opportunity cost ↑ Bond ↑ = Money holding!) (Transaction costs ↑ = Money holding ↓)

407. Factors involved in Friedman's Theory are: Permanent income (positive direction); Relative returns on assets (negative direction).
408. As per Tobin, money is safe asset but investor is willing to sacrifice it for higher returns.
409. The primary source of money supply in the economy is high powered money injected by the central org bank and secondary source is money created by commercial banks through credit creation process (credit multiplier).
410.  $M1 = \text{Currency notes and coins with the people} + \text{demand deposits with the}$
411. banking system (Current and Saving deposit accounts) + other deposits with the RBI.
412.  $M2 = M1 + \text{savings deposits with post office savings banks.}$
413.  $M3 = M1 + \text{time deposits with the banking system.}$
414.  $M4 = M3 + \text{total deposits with the Post Office Savings Organization}$
415.  $NM1 = \text{Currency with the public} + \text{Demand deposits with the banking system} + \text{'Other' deposits with the RBI}$
416.  $NM2 = NM1 + \text{Short-term time deposits of residents (including and up to contractual maturity of one year)}$
417.  $NM3 = NM2 + \text{Long-term time deposits of residents} + \text{Call/Term funding from financial institutions}$
418.  $L1 = NM3 + \text{All deposits with the post office savings banks (excluding National Savings Certificates).}$
419.  $L2 = L1 + \text{Term deposits with term lending institutions and refinancing institutions (Fls)} + \text{Term borrowing by Fls} + \text{Certificates of deposit issued by Fls}$
420. The money supply is defined as:  $M = m \times MB$
421. Money Multiplier (m) = Money Supply/Money base or  $1/R$
422.  $\Delta \text{Money Supply} = 1/R * \Delta \text{Reserves}$
423. Objectives of monetary policy: economic growth, adequate flow of credit, encourage investment, creating market for government securities.
424. Changes in monetary policy affect interest rate which in turn affect economic activity and inflation.
425. Channels of monetary policy: Interest rate channel, Asset price channel, Exchange rate channel, Expectation channel, Quantum channel.
426. CRR-Portion of total deposits maintained with RBI as cash.
427. SLR- Portion of total deposit maintained as liquid assets and approved securities held by bank
428. RBI buys and sells government securities in the open market to control money supply.
429. Some policy rates are Bank rate, Liquidity adjustment facility, Repo rate, reverse repo rate and Marginal standing facility.

430. The Central Government has notified 4 percent Consumer Price Index (CPI) inflation with deviation of 2% as the target.
431. Monetary policy committee has 6 members: RBI Governor (Chairperson), the RBI Deputy Governor, three central government nominees and one person nominated by RBI board.
432. Mercantilist's view proposes aggressive high exports while minimising imports to bring in precious metal.
433. As per theory of absolute advantage, a country will export products which it can produce with higher efficiency than other nations.
434. As per theory of comparative advantage, a country will export products which it can produce with lesser opportunity cost than that of another commodity.
435. As per Heckscher-Ohlin theory of trade, a country exports products whose production requires factor of production that is abundantly available with them.
436. Paul Krugman received the 2008 Nobel Prize and he noticed that most international trade takes place between nations with roughly same ratio of capital and labour.
437. Tariffs are taxes and duties imposed on exports and imports. Some types of tariffs are specific, Ad valorem, mixed, compound, technical, tariff rate quota, most favoured nation, variable, preferential, bound, applied, escalated, prohibitive, import subsidies, anti-dumping duties, and countervailing duties.
438. **Non-tariff measures** include technical (product specific) and non-technical (trade requirements) measures.
439. **Technical measure** includes Sanitary and Phytosanitary (SPS) and Technical Barriers to trade (TBT).
440. **Non-technical measures** include import quotas, price control, licensing, and prohibitions, financial, government procurement, investment measures, distribution and post sales service restrictions, administrative procedures, rules of origin, safeguard measures, and Embargos.
441. **Export Related measures** include ban on export, export taxes, export subsidies and voluntary export restraints.
442. **Regional Trade Agreements (RTAs)** are defined as groupings of countries, they can be classified as Unilateral trade agreements, Bilateral trade agreements, Regional Preferential Trade Agreements, Trading Bloc, Free-trade area, A customs union, Common Market, and Economic and Monetary Union.
443. The General Agreement on Tariffs and Trade (**GATT**):
- (a) Its working is responsibility of council for Trade in Goods.
  - (b) This council has **10 committees** dealing with specific subjects.
  - (c) However, it **lost its relevance** as it was unable to keep up everchanging world.
444. The final round of GATT started in Punta del Este in Uruguay in September 1986, which at its end in December 1993 it marked **birth of World Trade Organisation**.

445. **Goal of WTO** is to ensure that trade flows as smoothly, predictably, and freely as possible.

446. WTO's secretariat is in Geneva and headed by Director General. It has a three-tier system for decision making hierarchy being:

(a) **Ministerial Conference:** decisions on all matters under any of the multilateral trade agreements

(b) **General Council:** Trade Policy Review and Dispute Settlement Body

(c) **Goods Council, Services Council, and Intellectual Property (TRIPS) Council**

447. **Guiding Principles** of WTO: Most-favoured Nation, National treatment, Free Trade, Predictability, promoting fair competition, Encouraging development and economic reform.

448. Some important **WTO agreements:** Agreement on Agriculture, Application of Sanitary and Phytosanitary (SPS) Measures, Textiles and Clothing, Technical Barriers to Trade (TBT), Trade-Related Investment Measures, Anti-Dumping Agreement, Customs Valuation Agreement, Pre-shipment Inspection (PSI), Rules of Origin, Import Licensing Procedures, Subsidies and Countervailing, Safeguards, General Agreement on Trade in Services (GATS), Trade-Related Aspects of Intellectual Property Rights (TRIPS), Trade Policy Review Mechanism (TPRM), and Plurilateral Trade Agreements.

449. **Doha round was 9<sup>th</sup> round** Since 2<sup>nd</sup> world war at WTO's Fourth Ministerial Conference, its aim was to accomplish major modifications of the international trading system by lowering trade barriers and revising trade rules.

450. **After 12<sup>th</sup> round G20** economies had to pledge collectively to keep markets open and predictable to allow free flow of food and fertilizer.

451. **In free floating** exchange rate system, exchange rate is determined by market without government or central bank interventions.

452. In managed float system exchange rates are free to float but **Government or Central bank may intervene to influence their value.**

453. In fixed exchange rate system, the exchange rate is determined by Government Policy.

454. Nominal exchange rate is the rate rate is the rate for which a person can exchange currency of one country with another.

455. **Real exchange rate** is rate at which a person can trade goods and services of one country for goods and services of another.

456. **Real Exchange Rate = Nominal Exchange Rate x Domestic Price / Foreign price**

457. Forex market has two types of transactions; current transactions in spot market and; future transaction for future delivery in forward and/or futures markets.

458. **Appreciation** of currency is increase in value of currency in respect to other countries and **depreciation** is decrease in value of a currency in respect to other countries.

459. Devaluation is deliberate downward adjustment in value of currency.



- 460.Foreign Direct Investment (FDI) involves real investment in asset and involves ownership and it may be horizontal, vertical, or conglomerate.
- 461.Foreign Portfolio Investment (FPI) is flow of financial capital for profits rather than ownership and management.
- 462.FDI's are made by opening subsidies, equity injection, acquiring control, mergers and acquisition, etc.
- 463.The earliest known treatise on ancient Indian economic philosophy is 'Arthashastra' the pioneering work attributed to **Kautilya (Chanakya)**.
- 464.At the end of the 19th century, the Indian jute mill industry was the largest in the world in terms of the amount of raw jute consumed in production.
- 465.The cotton mill industry in India had 9 million spindles in the 1930s, which placed India in the fifth position globally in terms of number of spindles.
- 466.The Industrial Policy Resolution (1948) granted state monopoly for strategic areas such as atomic energy, arms and ammunition and railways. Also, the rights to new investments in basic Industries were exclusively given to the state.
- 467.Philosophies guiding the policies in 1950's were: Nehru's vision to build socialist economy and Gandhian philosophy. During 1950-1980, the GDP growth rate (referred to as Hindu Growth rate) was mere 3.5%.
- 468.The Industrial Policy Resolution of 1956 led to enormous expansion of public sector.
- 469.The government nationalized **14 banks in 1969** and then followed it up with nationalizing **another 6 in 1980**.
- 470.The 1991 policies can be broadly classified as: **stabilisation measures and structural reform measures**.
- 471.The fiscal reforms included: betterment of tax structure and compliance, reducing government expenditure, reduction in subsidies, selling stake in PSU's and encouraging private investment.
- 472.The New Economic Policy put an end to the license Raj' by removing licensing restrictions for all industries except 18.
- 473.FDI is prohibited only in four sectors viz. retail trade, atomic energy, lottery business and betting and gambling.
- 474.India enjoys a solid cushion of foreign exchange reserves close to eight months of import cover.
- 475.On 1st January 2015, Planning commission was replaced by National Institution for Transforming India (NITI) Aayog.
- 476.Objectives of NITI Aayog is to create shared vision, foster cooperative federalism, develop credible plans at village level, national security with economic growth, attention to backward sectors of economy, design long term policy, create support system for innovation, partnership, and entrepreneurs, etc.

- 477.India has emerged as the world's largest producer of milk, pulses, jute and spices. India has the largest area planted under wheat, rice and cotton.
- 478.In Industry 4.0, manufacturing transformation needs to integrate new technologies such as cloud computing, IoT, machine learning, and artificial intelligence (AI).
- 479.FDI equity inflows into the services sector accounted for more than 60 per cent of the total FDI equity inflows into India.
- 480.The Real GDP of India grew by 6.3 percent in July-September of 2022-23 driven by strong private consumption and investment.

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- › Over a decade of teaching experience
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- › Provides real-world insights
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