CHAPTER-1

Determination of National Income

Unit 1: National Income Accounting

1.1 - NATIONAL INCOME ACCOUNTING

1. **Which of the following is NOT a component of Gross Domestic Product (GDP)?**

(a) Consumption (b) Investment
(c) Government Spending (d) Imports

2. **Which of the following is the correct formula for calculating Gross Domestic Product (GDP)?**

(a) GDP = Consumption + Investment + Government Spending
(b) GDP = Consumption + Investment + Government Spending + Exports Imports
(c) GDP = Consumption + Investment + Net Exports
(d) GDP = Consumption + Investment + Government Spending + Exports

3. **Which of the following is a measure of a country's Gross National Product (GNP)?**

(a) The total value of all goods and services produced within a country's borders in a specific period.
(b) The total value of all goods and services produced by a country's residents, both domestically and abroad, in a specific period.
(c) The total value of all goods and services sold by a country to other countries in a specific period.
(d) The total value of all goods and services produced by a country's domestic companies in a specific period.

4. **In national income accounting, "Net Domestic Product (NDP)" is defined as:**

(a) The total value of all goods and services produced within a country's borders in a specific period.
(b) The total value of all final goods and services produced within a country's borders a specific period.
(c) The total value of all goods and services produced within a country's borders minus depreciation in a specific period.
(d) The total value of all goods and services produced by a country's residents, both domestically and abroad, in a specific period.

5. **Which of the following is NOT a component of Gross Domestic Product (GDP)?**
(a) Government Spending (b) Consumption (c) Investment (d) Imports

6. **What does GNP stand for in national income accounting?**
(a) Gross National Product (b) Gross Net Profit
(c) Government National Payment (d) General National Practice

7. **Which of the following represents the formula for calculating GDP (Gross Domestic Product)?**
(a) GDP = Consumption + Government Spending + Investment + Exports Imports
(b) GDP = Consumption + Government Spending - Investment + Exports + Imports
(c) GDP = Consumption + Government Spending + Investment - Exports - Imports
(d) GDP= Consumption - Government Spending +Investment + Exports - Imports

8. **In national income accounting, what does the term "disposable income" refer to?**
(a) The total income earned by a nation's residents.
(b) The income that individuals have after paying taxes.
(c) The total income earned by a nation's residents minus government spending.
(d) The income earned from foreign sources.

9. **Which of the following is NOT included in the calculation of Gross Domestic Product (GDP)?**
(a) Government spending (b) Consumer spending
(c) Imports (d) Exports

10. **Which of the following is used to measure the total income earned by a country's residents, regardless of their location?**
(a) Gross National Product (GNP) (b) Gross Domestic Product (GDP)
(c) Net National Product (NNP) (d) Net Domestic Product (NDP)

11. **In National Income Accounting, depreciation of capital refers to:**
(a) The decrease in the value of a nation's currency
(b) The decrease in the value of physical assets over time
(c) The decrease in the government's budget deficit
(d) The decrease in consumer spending on durable goods

12. Which of the following is an example of a transfer payment in National Income Accounting?

(a) Salary of a government employee
(b) Social Security benefits
(c) Income earned from selling goods
(d) Corporate taxes paid to the government

13. Which of the following is NOT a component of Aggregate Expenditure in National Income Accounting?

(a) Consumption (C)
(b) Investment (1)
(c) Government Spending (G)
(d) Net Exports (NX)

1.2 - Usefulness and Significance of National Income Estimates

1. National Income estimates are essential for:

(a) Calculating government debt
(b) Evaluating the overall health of the financial sector
(c) Measuring the economic growth and development of a country
(d) Determining the inflation rate

2. The Gross Domestic Product (GDP) per capita is used to:

(a) Measure the overall size of the economy
(b) Determine the average income of a country's citizens
(c) Calculate the total value of exports and imports
(d) Analyze the distribution of wealth in a nation

3. Which of the following is NOT a usefulness of National Income estimates?

(a) Facilitating economic planning and formulation of policies
(b) Assessing the contribution of different sectors to the economy
(c) Aiding in international trade negotiations
(d) Estimating the unemployment rate

4. National Income estimates help in identifying:

(a) The fiscal deficit of a country
(b) The sources of economic growth
(c) The exchange rates of foreign currencies
(d) The demographic profile of the population

5. **The difference between Gross National Product (GNP) and Gross Domestic Product (GDP) is mainly due to:**
   (a) Imports and exports (b) Government spending
   (c) Foreign aid received (d) Remittances from citizens working abroad

6. **Which of the following is a usefulness of National Income estimates in economic planning?**
   (a) Estimating the number of people in poverty
   (b) Determining the cost of living for citizens
   (c) Assessing the impact of monetary policy
   (d) Identifying the distribution of wealth in society

7. **Which of the following is NOT a significance of National Income estimates?**
   (a) Comparing the economic performance of different countries
   (b) Guiding businesses in profit maximization strategies
   (c) Formulating fiscal policies and taxation rates
   (d) Predicting short-term fluctuations in the stock market

8. **The concept of "per capita income" derived from National Income estimates is used to:**
   (a) Determine the total output of an economy
   (b) Measure the average income of individuals in the country
   (c) Assess the level of government debt
   (d) Calculate the value of imports and exports

9. **National Income estimates help in identifying:**
   (a) The number of foreign tourists visiting the country
   (b) The contribution of different sectors to the economy
   (c) The literacy rate and educational attainment of citizens
   (d) The availability of natural resources within the country

10. **National Income estimates are essential for:**
   (a) Calculating individual income taxes
   (b) Assessing the overall health of an economy

(c) Measuring inflation and unemployment rates
(d) Determining exchange rates between currencies

11. National Income estimates are essential because they help in:
(a) Calculating the total population of a country
(b) Measuring the total value of goods and services produced in a country
(c) Determining the exchange rate of the country's currency
(d) Evaluating the literacy rate of the country

12. The significance of National Income estimates lies in:
(a) Assessing the distribution of income among different income groups
(b) Determining the number of unemployed individuals in the country
(c) Estimating the total national debt of the country
(d) Analyzing the birth and death rates in the country

13. Which of the following is NOT a usefulness of National Income estimates?
(a) Assessing the standard of living in a country
(b) Formulating economic policies
(c) Calculating the inflation rate
(d) Comparing the economic performance of different countries

14. National Income estimates help in international comparisons of countries' economies because they:
(a) Provide information about the military strength of the countries
(b) Show the total exports and imports of the countries
(c) Indicate the level of technological advancement in the countries
(d) Offer a common measure to compare economic performance

15. Which of the following statements is true regarding the usefulness of National Income estimates?
(a) It helps in predicting the stock market trends.
(b) It assists in identifying the environmental challenges faced by a country.
(c) It is only relevant for developed countries, not for developing countries.
(d) It aids in assessing the contribution of different sectors to the economy.

1.3 - Different Concepts of National Income

1. **Gross Domestic Product (GDP) measures:**
   (a) The total value of goods and services produced within a country's borders, including net income from abroad.
   (b) The total value of goods and services produced by a country's residents, regardless of their location.
   (c) The total value of goods and services produced within a country's borders, excluding net income from abroad.
   (d) The total value of goods and services consumed within a country's borders.

2. **Gross National Product (GNP) is defined as:**
   (a) The total value of goods and services produced within a country's borders, excluding depreciation.
   (b) The total value of goods and services produced by a country's residents, regardless of their location.
   (c) The total value of goods and services produced within a country's borders, including indirect taxes.
   (d) The total value of goods and services produced by a country's residents, excluding net income from abroad.

3. **Net National Product (NNP) is calculated by:**
   (a) Deducting depreciation from Gross National Product (GNP).
   (b) Adding depreciation to Gross National Product (GNP).
   (c) Deducting indirect taxes from Gross Domestic Product (GDP).
   (d) Adding indirect taxes to Gross National Product (GNP).

4. **National Disposable Income (NDI) is defined as:**
   (a) The total income earned by a country's residents, including net income from abroad.
   (b) The total income earned by a country's residents, excluding net income from abroad and indirect taxes.
   (c) The total income earned by a country's residents, including indirect taxes.
   (d) The total income earned by a country's residents, excluding depreciation.

5. **Personal Income (PI) is calculated as:**
   (a) National Disposable Income (NDI) minus corporate profits and social insurance contributions.
   (b) National Income (NI) minus indirect taxes.
   (c) Gross Domestic Product (GDP) minus depreciation.
   (d) Gross National Product (GNP) minus net income from abroad.

6. **Gross Domestic Product (GDP) is defined as the total:**
   (a) Income earned by a country's residents, regardless of their location
   (b) Value of goods and services produced within a country's borders
   (c) Income earned by foreign residents within the country
   (d) Value of goods and services produced by a country's residents abroad

7. **Gross National Product (GNP) is calculated as the total:**
   (a) Value of goods and services produced within a country's borders
   (b) Income earned by a country's residents, regardless of their location
   (c) Income earned by foreign residents within the country
   (d) Value of goods and services produced by a country's residents abroad

8. **Net National Product (NNP) is derived by deducting:**
   (a) Depreciation from GDP
   (b) Depreciation from GNP
   (c) Net indirect taxes from GDP
   (d) Net indirect taxes from GNP

9. **National Disposable Income (NDI) is calculated by:**
   (a) Adding depreciation to NNP
   (b) Adding net indirect taxes to NNP
   (c) Deducting direct taxes from NNP
   (d) Deducting net indirect taxes from NNP

10. **Personal Income (PI) is derived from National Income (NI) by:**
    (a) Adding transfer payments and deducting undistributed corporate profits
    (b) Adding corporate profits and deducting net interest and rent
    (c) Deducting direct taxes and adding transfer payments
    (d) Deducting retained earnings and adding social security contributions

11. Which concept of National Income includes only the market value of final goods and services produced within a country's borders during a specific time period?

(a) Gross National Product (GNP)
(b) Net Domestic Product (NDP)
(c) Gross Domestic Product (GDP) at market price
(d) Net National Product (NNP)

12. Which concept of National Income deducts depreciation (capital consumption) from Gross Domestic Product (GDP)?

(a) Net Domestic Product (NDP)
(b) Net National Product (NNP)
(c) Gross National Product (GNP)
(d) Gross Domestic Product (GDP) at factor cost

13. Which concept of National Income takes into account the net income earned from foreign investments and deducts net income earned by foreigners within the country?

(a) Gross Domestic Product (GDP) at factor cost
(b) Net Domestic Product (NDP)
(c) Gross National Product (GNP)
(d) Net National Product (NNP)

14. Which concept of National Income includes only the value added at each stage of production and avoids double-counting?

(a) Gross Domestic Product (GDP) at market price
(b) Net Domestic Product (NDP)
(c) Gross Domestic Product (GDP) at factor cost
(d) Gross Value Added (GVA)

15. Which concept of National Income measures the total market value of all final goods and services produced within a country's borders, excluding the value of indirect taxes and including subsidies?

(a) Net Domestic Product (NDP) at factor cost
(b) Gross Domestic Product (GDP) at factor cost
(c) Gross Domestic Product (GDP) at market price
(d) Net National Product (NNP)

1.3.1 - Gross Domestic Product

1. **The following table shows the production and prices of two goods, X and Y, in a hypothetical economy for the year 2023:**

Goods	Quantity Produced	Price per Unit
X	100 units	₹ 10
Y	150 units	₹ 15

Calculate the nominal GDP of the economy for the year 2023.

(a) ₹ 2,500 (b) ₹ 3,000 (c) ₹ 3,500 (d) ₹ 4,000

Real GDP:

2. **In a country, the nominal GDP for the year 2022 is 800 billion, and the GDP deflator for 2022 is 120.0. What is the real GDP for 2022?**

(a) ₹ 480 billion (b) ₹ 666.67 billion (c) ₹ 666.00 billion (d) ₹ 960 billion

GDP Deflator:

3. **The nominal GDP of a country in the base year was ₹ 500 billion, and the real GDP in the same year was ₹ 450 billion. Calculate the GDP deflator for the base year.**

(a) 90.0 (b) 100.0 (c) 110.0 (d) 125.0

4. **In the current year, the nominal GDP of the country is ₹ 600 billion, and the real GDP is ₹ 540 billion. Calculate the GDP deflator for the current year using the base year's GDP deflator (which is 100.0).**

(a) 90.0 (b) 100.0 (c) 110.0 (d) 125.0

5. **If the GDP deflator for a particular year is 120.0, what does it indicate about the price level compared to the base year?**

(a) Prices have increased by 20% compared to the base year.

(b) Prices have decreased by 20% compared to the base year.

(c) Prices have remained the same as the base year.

(d) Prices have doubled compared to the base year.

6. **If the GDP deflator for a particular year is 90.0, what does it indicate about the price level compared to the base year?**

(a) Prices have increased by 10% compared to the base year.

(b) Prices have decreased by 10% compared to the base year.

(c) Prices have remained the same as the base year.

(d) Prices have decreased by 90% compared to the base year.

1.3.2 - Gross National Product (GNP)

1. In a country, the Gross National Product (GNP) for the year 2021 is calculated as follows:

- **Gross Domestic Product (GDP) = ₹ 900 billion**
- **Net factor income from abroad (NFIA) = - ₹ 50 billion (negative value indicates net outflow of income to foreign countries)**

Calculate the GNP for the year 2021.

(a) ₹ 850 billion

(b) ₹ 950 billion

(c) ₹ 950 billion (adjusted for net factor income from abroad)

(d) ₹ 850 billion (adjusted for net factor income from abroad)

2. In a country, the Gross National Product (GNP) for the year 2022 is ₹ 1,200 billion, and Net factor income from abroad (NFIA) is ₹ 40 billion (positive value indicates net inflow of income from foreign countries). Calculate the Gross Domestic Product (GDP) for the year 2022.

(a) ₹ 1,160 billion

(b) ₹ 1,240 billion

(c) ₹ 1,160 billion (adjusted for net factor income from abroad)

(d) ₹ 1,240 billion (adjusted for net factor income from abroad)

3. In a country, the Gross National Product (GNP) for the year 2023 is ₹ 2,500 billion, and Net factor income from abroad (NFIA) is ₹ 80 billion (positive value indicates net inflow of income from foreign countries). The GDP for the year 2023 is:

(a) ₹ 2,580 billion

(b)₹ 2,420 billion

(c) ₹ 2,420 billion (adjusted for net factor income from abroad)

(d) ₹ 2,580 billion (adjusted for net factor income from abroad)

4. **In a country, the Gross National Product (GNP) for the year 2022 is calculated as follows:**

Gross Domestic Product (GDP) = ₹ 900 billion

Net factor income from abroad = ₹ 50 billion

What is the Gross National Product (GNP) for the year 2022?

(a) ₹ 850 billion (b) ₹ 950 billion (c) ₹ 950 billion (d) ₹ 950 billion

1.3.4 - Net National Product at Market Prices (NNPMP)

1. **In a country, the Gross National Product (GNP) at Market Prices for the year 2021 is ₹ 800 billion. During the same year, depreciation (Capital Consumption Allowance) amounts to ₹ 100 billion. Calculate the Net National Product at Market Prices (NNPMP) for the year 2021.**

(a) ₹ 900 billion (b) ₹ 700 billion (c) ₹ 800 billion (d) ₹ 600 billion

2. **In a country, the Gross National Product (GNP) at Market Prices for the year 2022 is ₹ 1,500 billion. During the same year, depreciation (Capital Consumption Allowance) amounts to ₹ 200 billion. Calculate the Net National Product at Market Prices (NNPMP) for the year 2022.**

(a) ₹ 1,300 billion

(b) ₹ 1,700 billion

(c) ₹ 1,300 billion (adjusted for depreciation)

(d) ₹ 1,700 billion (adjusted for depreciation)

3. **In a country, the Gross National Product (GNP) at Market Prices for the year 2023 is ₹ 2,000 billion. During the same year, depreciation (Capital Consumption Allowance) amounts to ₹ 250 billion. The Net National Product at Market Prices (NNPMP) for the year 2023 is:**

(a) ₹ 2,250 billion

(b) ₹ 1,750 billion

(c) ₹ 2,250 billion (adjusted for depreciation)

(d) ₹ 1,750 billion (adjusted for depreciation)

1.3.5 - Gross Domestic Product at Factor Cost (GDPFC)

1. **In a country, the Gross Domestic Product at Market Prices (GDPMP) for the year 2021 is ₹ 900 billion, and indirect taxes (subsidies) on products are ₹ 50 billion. Calculate the Gross Domestic Product at Factor Cost (GDPFC) for the year 2021.**
   (a) ₹ 850 billion
   (b) ₹ 950 billion
   (c) ₹ 950 billion (adjusted for indirect taxes)
   (d) ₹ 850 billion (adjusted for subsidies)

2. **In a country, the Gross Domestic Product at Market Prices (GDPMP) for the year 2022 is ₹ 1,200 billion, and indirect taxes (subsidies) on products are ₹ 100 billion. Calculate the Gross Domestic Product at Factor Cost (GDPFC) for the year 2022.**
   (a) ₹ 1,100 billion
   (b) ₹ 1,300 billion
   (c) ₹ 1,100 billion (adjusted for indirect taxes)
   (d) ₹ 1,300 billion (adjusted for subsidies)

3. **In a country, the Gross Domestic Product at Market Prices (GDPMP) for the year 2023 is ₹ 2,500 billion, and indirect taxes (subsidies) on products are ₹ 200 billion. Calculate the Gross Domestic Product at Factor Cost (GDPFC) for the year 2023.**
   (a) ₹ 2,300 billion
   (b) 2,700 billion
   (c) ₹ 2,300 billion (adjusted for indirect taxes)
   (d) ₹ 2,700 billion (adjusted for subsidies)

1.3.6 - Net Domestic Product at Factor Cost (NDPFC)

1. **In a country, the Gross Domestic Product at Factor Cost (GDPFC) for the year 2021 is ₹ 800 billion, and depreciation (consumption of fixed capital) is ₹ 100 billion. Calculate the Net Domestic Product at Factor Cost (NDPFC) for the year 2021.**
   (a) ₹ 700 billion
   (b) ₹ 900 billion

(c) ₹ 700 billion (adjusted for depreciation)

(d) ₹ 900 billion (adjusted for depreciation)

2. **In a country, the Gross Domestic Product at Factor Cost (GDPFC) for the year 2022 is ₹ 1,200 billion, and depreciation (consumption of fixed capital) is ₹ 150 billion. Calculate the Net Domestic Product at Factor Cost (NDPFC) for the year 2022.**

(a) ₹ 1,050 billion

(b) ₹ 1,350 billion

(c) ₹ 1,050 billion (adjusted for depreciation)

(d) ₹ 1,350 billion (adjusted for depreciation)

3. **In a country, the Gross Domestic Product at Factor Cost (GDPFC) for the year 2023 is ₹ 2,500 billion, and depreciation (consumption of fixed capital) is 200 billion. Calculate the Net Domestic Product at Factor Cost (NDPFC) for the year 2023.**

(a) ₹ 2,300 billion

(b) ₹ 2,700 billion

(c) ₹ 2,300 billion (adjusted for depreciation)

(d) ₹ 2,700 billion (adjusted for depreciation)

1.3.7 - Net National Product at Factor Cost (NNPFC) or National Income

1. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2021 is ₹ 900 billion, and net indirect taxes (subsidies) on products are ₹ 50 billion. Calculate the Net National Product at Factor Cost (NNPFC) or National Income for the year 2021.**

(a) ₹ 850 billion

(b) ₹ 950 billion

(c) ₹ 950 billion (adjusted for net indirect taxes)

(d) 850 billion (adjusted for subsidies)

2. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2022 is ₹ 1,200 billion, and net indirect taxes (subsidies) on products are ₹ 100 billion. Calculate the Net National Product at Factor Cost (NNPFC) or National Income for the year 2022.**

(a) ₹ 1,100 billion

(b) ₹ 1,300 billion

(c) ₹ 1,100 billion (adjusted for net indirect taxes)

(d) ₹ 1,300 billion (adjusted for subsidies)

3. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2023 is ₹ 2,500 billion, and net indirect taxes (subsidies) on products are ₹ 200 billion. Calculate the Net National Product at Factor Cost (NNPFC) or National Income for the year 2023.**

(a) ₹ 2,300 billion

(b) ₹ 2,700 billion

(c) ₹ 2,300 billion (adjusted for net indirect taxes)

(d) ₹ 2,700 billion (adjusted for subsidies)

1.3.8 - Per Capita Income

1. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2021 is ₹ 800 billion, and the total population is ₹ 200 million. Calculate the Per Capita Income for the year 2021.**

(a) ₹ 4,000 (b) ₹ 4,500 (c) ₹ 3,500 (d) ₹ 4,200

2. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2022 is ₹ 1,200 billion, and the total population is ₹ 250 million. Calculate the Per Capita Income for the year 2022.**

(a) ₹ 4,800 (b) ₹ 4,000 (c) ₹ 4,500 (d) 5,000

3. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2023 is ₹ 2,500 billion, and the total population is ₹ 300 million. Calculate the Per Capita Income for the year 2023.**

(a) ₹ 8,000 (b) ₹ 6,000 (c) ₹ 7,500 (d) 5,000

1.3.9 - Personal Income

1. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2021 is ₹ 900 billion, depreciation (consumption of fixed capital) is ₹ 100 billion, net indirect taxes (subsidies) on products are 50 billion, and net current transfers from abroad are 20 billion. Calculate the Personal Income for the year 2021.**

   (a) ₹ 730 billion (b) ₹ 850 billion (c) ₹ 830 billion (d) ₹ 900 billion

2. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2022 is ₹ 1,200 billion, depreciation (consumption of fixed capital) is ₹ 150 billion, net indirect taxes (subsidies) on products are ₹ 80 billion, and net current transfers from abroad are ₹ 30 billion. Calculate the Personal Income for the year 2022.**

   (a) ₹ 1,000 billion (b) ₹ 1,100 billion (c) ₹ 1,020 billion (d) ₹ 1,130 billion

3. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2023 is ₹ 2,500 billion, depreciation (consumption of fixed capital) is ₹ 200 billion, net indirect taxes (subsidies) on products are ₹ 100 billion, and net current transfers from abroad are ₹ 40 billion. Calculate the Personal Income for the year 2023.**

   (a) ₹ 2,240 billion (b) ₹ 2,440 billion (c) ₹ 2,380 billion (d) 2,540 billion

4. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2021 is ₹ 900 billion. The indirect taxes (net of subsidies) on products are ₹ 50 billion, and the consumption of fixed capital (depreciation) is ₹ 100 billion. Calculate the Personal Income for the year 2021, given that there are no other income transfer ₹**

   (a) ₹ 750 billion (b) ₹ 800 billion (c) ₹ 850 billion (d) ₹ 900 billion

5. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2022 is ₹ 1,200 billion. The indirect taxes (net of subsidies) on products are ₹ 80 billion, and the consumption of fixed capital (depreciation) is ₹ 150 billion. Calculate the Personal Income for the year 2022, given that there are no other income transfer**

   (a) ₹ 960 billion (b) ₹ 970 billion (c) ₹ 980 billion (d) ₹ 990 billion

6. **In a country, the Gross National Product at Factor Cost (GNPFC) for the year 2023 is ₹ 2,500 billion. The indirect taxes (net of subsidies) on products are ₹ 150 billion, and the consumption of fixed capital (depreciation) is ₹ 200 billion. Calculate the Personal Income for the year 2023, given that there are no other income transfer ₹**

(a) ₹ 2,150 billion (b) ₹ 2,150 billion. (c) ₹ 2,150 billion (d) ₹ 2,150 billion

1.3.10 - Disposable Personal Income (DI)

1. **In a country, the Personal Income (PI) for the year 2021 is ₹ 800 billion. The direct taxes are ₹ 100 billion, and the social security contributions are 50 billion. Calculate the Disposable Personal Income (DI) for the year 2021, given that there are no other income transfer ₹**

(a) ₹ 650 billion (b) ₹ 750 750 billion (c) ₹ 700 billion (d) ₹ 600 billion

2. **In a country, the Personal Income (PI) for the year 2022 is ₹ 1,200 billion. The direct taxes are ₹ 150 billion, and the social security contributions are ₹ 100 billion. Calculate the Disposable Personal Income (DI) for the year 2022, given that there are no other income transfer**

(a) ₹ 950 billion (b) 1,050 billion (c) 1,000 billion (d) ₹ 900 billion

3. **In a country, the Personal Income (PI) for the year 2023 is ₹ 2,500 billion. The direct taxes are ₹ 200 billion, and the social security contributions are ₹ 150 billion. Calculate the Disposable Personal Income (DI) for the year 2023, given that there are no other income transfer ₹**

(a) ₹ 2,200 billion (b) ₹ 2,300 billion (c) ₹ 2,350 billion (d) ₹ 2,400 billion

4. **In a country, the Personal Income (PI) for the year 2021 is ₹ 900 billion. Personal taxes for the year 2021 are ₹ 150 billion. Calculate the Disposable Personal Income (DI) for the year 2021.**

(a) ₹ 750 billion (b) ₹ 900 billion

(c) ₹ 750 billion (adjusted for personal taxes) (d) ₹ 1,050 billion

5. **In a country, the Personal Income (PI) for the year 2022 is ₹ 1,200 billion. Personal taxes for the year 2022 are ₹ 180 billion. Calculate the Disposable Personal Income (DI) for the year 2022.**

(a) ₹ 1,020 billion

(b) ₹ 1,200 billion

(c) ₹ 1,020 billion (adjusted for personal taxes)

(d) ₹ 1,380 billion

6. **In a country, the Personal Income (PI) for the year 2023 is ₹ 2,500 billion. Personal taxes for the year 2023 are ₹ 300 billion. Calculate the Disposable Personal Income (DI) for the year 2023.**

(a) ₹ 2,200 billion

(b) ₹ 2,800 billion

(c) ₹ 2,200 billion (adjusted for personal taxes)

(d) ₹ 2,800 billion (adjusted for personal taxes)

1.3.11 - Private Income

1. **In a country, the Personal Income (PI) for the year 2021 is ₹ 900 billion. Current transfers from the government and rest of the world to individuals for the year 2021 are ₹ 50 billion. Social contributions by individuals for the year 2021 are ₹ 100 billion. Calculate the Private Income for the year 2021.**

(a) ₹ 750 billion (b) ₹ 800 billion (c) ₹ 850 billion (d) ₹ 950 billion

2. **In a country, the Personal Income (PI) for the year 2022 is ₹ 1,200 billion. Current transfers from the government and rest of the world toindividuals for the year 2022 are ₹ 80 billion. Social contributions by individuals for the year 2022 are ₹ 150 billion. Calculate the Private Income for the year 2022.**

(a) ₹ 970 billion (b) ₹ 970 billion (c) 970 billion (d) ₹ 970 billion

3. **In a country, the Personal Income (PI) for the year 2023 is ₹ 2,500 billion. Current transfers from the government and rest of the world to individuals for the year 2023 are ₹ 200 billion. Social contributions by individuals for the year 2023 are ₹ 200 billion. Calculate the Private Income for the year 2023.**

(a) ₹ 2,300 billion (b) ₹ 2,700 billion (c) 2,500 billion (d) ₹2,900 billion

4. **In a country, the Personal Income (PI) for the year 2021 is ₹ 900 billion. Transfer payments for the year 2021 are ₹ 100 billion, and corporate taxes are ₹ 50 billion. Calculate the Private Income for the year 2021.**

(a) ₹ 750 billion

(b) ₹ 750 billion (adjusted for transfer payments)

(c) ₹ 850 billion

(d) ₹ 950 billion

5. **In a country, the Personal Income (PI) for the year 2022 is ₹ 1,200 billion. Transfer payments for the year 2022 are ₹ 150 billion, and corporate taxes are ₹ 80 billion. Calculate the Private Income for the year 2022.**

(a) ₹ 970 billion

(b) ₹ 1,020 billion

(c) ₹ 970 billion (adjusted for transfer payments)

(d) ₹ 1,080 billion

6. **In a country, the Personal Income (PI) for the year 2023 is ₹ 2,500 billion. Transfer payments for the year 2023 are ₹ 200 billion, and corporate taxes are ₹ 150 billion. Calculate the Private Income for the year 2023.**

(a) ₹ 2,200 billion (b) ₹ 2,150 billion

(c) ₹ 2,200 billion (adjusted for transfer payments) (d) ₹ 2,350 billion

1.4 - Measurement of National Income in India

1. **Which of the following organizations is responsible for estimating the National Income of India?**

(a) Reserve Bank of India (RBI) (b) Central Statistical Office (CSO)

(c) Ministry of Finance (d) World Bank

2. **Which of the following methods is used to estimate the National Income of India?**

(a) Expenditure approach (b) Consumer Price Index method

(c) Profit and Loss method (d) Balance of Payments approach

3. **Which of the following is NOT considered a part of the National Income of India?**

(a) Wages of factory workers

(b) Dividends received by shareholders from a domestic company

(c) Profits earned by a foreign company from its operations in India

(d) Government grants given to a state for infrastructure development

4. **Which base year is currently used for calculating the real Gross Domestic Product (GDP) in India?**
   (a) 2010-2011 (b) 2004-2005 (c) 2015-2016 (d) 2008-2009

5. **Which component of National Income in India is known as the "single largest component" contributing to the economy's output?**
   (a) Agriculture (b) Manufacturing (c) Services (d) Construction

6. **Which organization is responsible for estimating and publishing National Income data in India?**
   (a) Reserve Bank of India (RBI) (b) Ministry of Finance
   (c) Central Statistical Office (CSO) (d) Indian Statistical Institute (ISI)

7. **Which method is used to estimate National Income in India?**
   (a) Expenditure approach (b) Production approach
   (c) Income approach (d) All of the above

8. **The base year for computing the Gross Domestic Product (GDP) in India is generally revised after every:**
   (a) 5 years (b) 8 years (c) 10 years (d) 15 years

9. **Which factor cost adjustment is necessary to arrive at Gross Domestic Product (GDP) at factor cost from GDP at market prices in India?**
   (a) Deducting indirect taxes and adding subsidies
   (b) Adding indirect taxes and deducting subsidies
   (c) Adding net exports
   (d) Deducting net exports

10. **Which of the following sectors is NOT included in the sectoral classification used for estimating National Income in India?**
   (a) Agriculture and allied activities (b) Manufacturing
   (c) Services (d) Foreign Trade

11. **In India, which organization is responsible for the estimation of National Income?**
(a) Ministry of Finance (b) Reserve Bank of India (RBI)
(c) Central Statistical Office (CSO) (d) Planning Commission of India

12. **Which factor-based method is used for calculating Gross Domestic Product (GDP) in India?**
(a) Production Approach (b) Expenditure Approach
(c) Income Approach (d) Value Added Approach

13. **Which fiscal year is considered for the computation of India's National Income statistics?**
(a) January 1st to December 31st (b) April 1st to March 31st
(c) July 1st to June 30th (d) October 1st to September 30th

14. **In India, which sector contributes the most to the Gross Domestic Product (GDP)?**
(a) Agriculture and Allied Activities (b) Manufacturing
(c) Services (d) Mining and Quarrying

15. **In the context of National Income accounting, what does GVA stand for?**
(a) Gross Value Adjustment (b) Gross Value Added
(c) Gross Variable Assessment (d) General Value Adjustment

1.4.1 - The Circular Flow of Income

1. **In a simple economy, the total value of (Gross Domestic Product - GDP) is earned by households (wages, rent, goods and services produced ₹ 500 billion. The total income and profits) is ₹ 400 billion. Calculate the total value of savings and taxes in this economy.**
(a) ₹ 100 billion (b) ₹ 200 billion (c) ₹ 300 billion (d) ₹ 400 billion

2. **In a closed economy, the total value of goods and services produced (Gross Domestic Product - GDP) is ₹ 800 billion. The total value of consumption expenditure is ₹ 600 billion. Calculate the total value of savings in this closed economy.**
(a) ₹ 100 billion (b) ₹ 200 billion (c) ₹ 300 billion (d) ₹ 400 billion

3. **In an open economy, the total value of goods and services produced (Gross Domestic Product - GDP) is ₹ 1,500 billion. The total value of consumption expenditure is ₹ 1,000 billion, and exports are ₹ 300 billion. Calculate the total value of savings in this open economy.**

(a) ₹ 300 billion (b) ₹ 500 billion (c) ₹ 800 billion (d) ₹ 1,200 billion

4. **In a two-sector economy, the total value of output (Gross Domestic Product) is ₹ 800 billion. Calculate the total value of income generated in the economy.**

(a) ₹ 800 billion (b) ₹ 600 billion (c) ₹ 400 billion (d) ₹ 1,200 billion

5. **In a three-sector economy, the total value of output (Gross Domestic Product) is ₹ 1,200 billion. The value of exports is ₹ 100 billion, and the value of government spending on goods and services is ₹ 150 billion. Calculate the total value of income generated in the economy.**

(a) ₹ 1,200 billion (b) ₹ 1,050 billion (c) ₹ 950 billion (d) ₹ 1,000 billion

6. **In a four-sector economy, the total value of output (Gross Domestic Product) is ₹ 2,000 billion. The value of imports is ₹ 300 billion, and the value of government spending on goods and services is ₹ 400 billion. Calculate the total value of income generated in the economy.**

(a) ₹ 1,300 billion (b) ₹ 1,600 billion (c) ₹ 2,000 billion (d) ₹ 2,700 billion

1.4.2 Value Added Method or Product Method

1. **Consider a three-stage production process. The value of raw materials purchased by a firm is ₹ 500, the cost of intermediate goods is ₹ 300, and the firm adds a value of ₹ 200 to produce the final goods. Calculate the value added by the firm.**

(a) ₹ 200 (b) ₹ 300 (c) ₹ 500 (d) ₹ 1,000

2. **Consider a four-stage production process. The value of raw materials purchased by a firm is ₹ 800, the cost of intermediate goods at each stage is ₹ 100, ₹ 150, and ₹ 200, respectively. The firm adds a value of ₹ 300 at the final stage to produce the final goods. Calculate the value added by the firm.**

(a) ₹ 100 (b) ₹ 150 (c) ₹ 300 (d) ₹ 450

3. **Consider a two-stage production process. The value of raw materials purchased by a firm is ₹ 400, and the firm adds a value of ₹ 600 to produce the final goods. Calculate the value added by the firm.**

   (a) ₹ 400 (b) ₹ 600 (c) 1,000 (d) ₹ 200

4. **In a three-stage process, the value of raw materials production purchased by a company is ₹ 500 million. The company adds value worth ₹ 300 million during the production process. Calculate the total value of the final product.**

   (a) ₹ 100 million (b) ₹ 200 million (c) ₹ 300 million (d) ₹ 800 million

5. **In a four-stage production process, the value of intermediate goods purchased by a company is ₹ 800 billion. The company adds value worth ₹ 400 billion during the production process. Calculate the total value of the final product.**

   (a) ₹ 200 billion (b) ₹400 billion (c) ₹ 800 billion (d) ₹ 1,200 billion

6. **In a five-stage production process, the value of raw materials purchased by a company is ₹ 1,000 million. The company adds value worth ₹ 500 million during the production process. Calculate the total value of the final product.**

   (a) ₹ 500 million (b) ₹ 1,000 million (c) ₹ 1,500 million (d) ₹ 2,000 million

1.4.3 - Income Method

1. **In an economy, the following income components are given: employee compensation (₹ 300 billion), rents (₹ 50 billion), interest (₹ 100 billion), proprietor's income (₹ 150 billion), corporate profits (₹ 200 billion), and taxes on production and imports (₹ 50 billion). Calculate the Gross Domestic Product (GDP) using the Income Method.**

   (a) ₹ 500 billion (b) ₹ 700 billion (c) ₹ 800 billion (d) ₹ 850 billion

2. **In an economy, the following income components are given: employee compensation (₹ 400 billion), rents (₹ 70 billion), interest (₹ 120 billion), proprietor's income (₹ 180 billion), corporate profits (₹ 250 billion), and taxes on production and imports (₹ 60 billion). Calculate the Gross Domestic Product (GDP) using the Income Method.**

   (a) ₹ 800 billion (b) ₹ 900 billion (c) ₹ 1,000 billion (d) ₹ 1,080 billion

3. **In an economy, the following income components are given: employee compensation (₹ 500 billion), rents (₹ 90 billion), interest (₹ 150 billion), proprietor's income (₹ 200 billion), corporate profits (₹ 300 billion), and taxes on production and imports (₹ 80 billion). Calculate the Gross Domestic Product (GDP) using the Income Method.**
(a) ₹ 950 billion (b) ₹ 1,000 billion (c) ₹ 1,200 billion (d) ₹ 1,220 billion

4. **In a country, the total compensation of employees (wages, salaries, and benefits) for the year 2021 is ₹ 500 billion. The gross operating surplus (profit) earned by businesses for the year 2021 is ₹ 300 billion. Calculate the Gross National Income (GNI) for the year 2021.**
(a) ₹ 200 billion (b) ₹ 500 billion (c) 800 billion (d) ₹ 300 billion

5. **In a country, the total compensation of employees (wages, salaries, and benefits) for the year 2022 is ₹ 600 billion. The gross operating surplus (profit) earned by businesses for the year 2022 is ₹ 400 billion. Calculate the Gross National Income (GNI) for the year 2022.**
(a) ₹ 1,000 billion (b) ₹ 400 billion (c) ₹ 600 billion (d) ₹ 1,200 billion

6. **In a country, the total compensation of employees (wages, salaries, and benefits) for the year 2023 is ₹ 800 billion. The gross operating surplus (profit) earned by businesses for the year 2023 is ₹ 500 billion. Calculate the Gross National Income (GNI) for the year 2023.**
(a) ₹ 1,30billion (b) ₹ 1,500 billion (c) ₹ 800 billion (d) ₹ 300 billion

1.4.4 - Expenditure Method

1. **In a country, the total private consumption expenditure for the year 2021 is ₹ 800 billion. The total investment expenditure for the year 2021 is ₹ 200 billion. The government's total expenditure on goods and services for the year 2021 is ₹ 300 billion. Calculate the Gross Domestic Product (GDP) for the year 2021.**
(a) ₹ 500 billion (b) ₹ 1,000 billion (c) ₹ 1,300 billion (d) ₹ 900 billion

2. **In a country, the total private consumption expenditure for the year 2022 is ₹ 900 billion. The total investment expenditure for the year 2022 is ₹ 250 billion. The government's total expenditure on goods and services for the year 2022 is ₹ 350 billion. Calculate the Gross Domestic Product (GDP) for the year 2022.**
(a) ₹ 1,500 billion (b) ₹ 1,100 billion (c) ₹ 1,200 billion (d) ₹ 1,500 billion

3. **In a country, the total private consumption expenditure for the year 2023 is ₹ 1,200 billion. The total investment expenditure for the year 2023 is ₹ 300 billion. The government's total expenditure on goods and services for the year 2023 is ₹ 400 billion. Calculate the Gross Domestic Product (GDP) for the year 2023.**

(a) ₹ 1,500 billion

(b) ₹ 1,900 billion

(c) ₹ 1,900 billion (adjusted for imports)

(d) ₹ 1,500 billion (adjusted for exports)

4. **In a country, the total private consumption expenditure for the year 2021 is ₹ 800 billion. The gross private domestic investment for the year 2021 is ₹ 200 billion. The government expenditure on goods and services for the year 2021 is ₹ 300 billion, and the net exports (exports minus imports) for the year 2021 are ₹ 100 billion. Calculate the Gross Domestic Product (GDP) for the year 2021.**

(a) ₹ 1,000 billion (b) ₹ 1,000 billion (c) ₹ 1,200 billion (d) ₹ 900 billion

5. **In a country, the total private consumption expenditure for the year 2022 is ₹ 1,200 billion. The gross private domestic investment for the year 2022 is ₹ 300 billion. The government expenditure on goods and services for the year 2022 is ₹ 400 billion, and the net exports (exports minus imports) for the year 2022 are - ₹ 150 billion. Calculate the Gross Domestic Product (GDP) for the year 2022.**

(a) ₹ 1,350 billion (b) ₹ 1,350 billion (c) ₹ 1,550 billion (d) ₹ 1,100 billion

6. **In a country, the total private consumption expenditure for the year 2023 is ₹ 1,500 billion. The gross private domestic investment for the year 2023 is ₹ 400 billion. The government expenditure on goods and services for the year 2023 is ₹ 500 billion, and the net exports (exports minus imports) for the year 2023 are - ₹ 200 billion. Calculate the Gross Domestic Product (GDP) for the year 2023.**

(a) ₹ 1,300 billion (b) ₹ 1,300 billion (c) ₹ 1,600 billion (d) ₹ 1,200 billion

1.5 - The System of Regional Accounts in India

1. **The System of Regional Accounts in India provides economic data at which level of geographical aggregation?**
   (a) District level (b) State level (c) National level (d) International level

2. **Which government agency is responsible for preparing the System of Regional Accounts in India?**
   (a) Ministry of Finance
   (b) Reserve Bank of India (RBI)
   (c) Central Statistical Office (CSO)
   (d) National Institution for Transforming India (NITI Aayog)

3. **The System of Regional Accounts in India provides data on which of the following aspects at the state level?**
   (a) Population and demographic trends
   (b) Agricultural production and land use
   (c) Industrial output and manufacturing activities
   (d) All of the above

4. **Which of the following is NOT a primary purpose of the System of Regional Accounts in India?**
   (a) Facilitating inter-state economic comparisons
   (b) Informing state-level economic planning and policy formulation
   (c) Identifying regional disparities and inequalities
   (d) Regulating regional fiscal policies

5. **Which statistical yearbook published by the CSO includes the data and analysis on the System of Regional Accounts in India?**
   (a) Economic Survey of India (b) Indian Financial Yearbook
   (c) India in Figures (d) National Accounts Statistics

6. **What is the primary purpose of the System of Regional Accounts in India?**
   (a) To estimate the national income of the country
   (b) To measure the economic growth of different states
   (c) To calculate the GDP of individual cities
   (d) To track the inflation rate at the regional level

7. **Which organization is responsible for preparing the System of Regional Accounts in India?**
(a) Reserve Bank of India (RBI) (b) Ministry of Finance
(c) Central Statistical Office (CSO) (d) National Sample Survey Office (NSSO)

8. **Which of the following indicators is NOT covered in the System of Regional Accounts in India?**
(a) Gross State Domestic Product (GSDP) (b) Per Capita Income of states
(c) Industrial Production Index of states (d) National Unemployment Rate

9. **Which method is used for estimating the Gross State Domestic Product (GSDP) in India?**
(a) Production Approach (b) Income Approach
(c) Expenditure Approach (d) Value Added Approach

10. **The System of Regional Accounts in India provides data at which level of geographical aggregation?**
(a) District level (b) City level (c) State level (d) Village level

1.6 - GDP and Welfare

1. **Gross Domestic Product (GDP) measures:**
(a) The total value of goods and services produced within a country's border ₹
(b) The total value of goods and services consumed by households.
(c) The total value of goods and services exported by a country.
(d) The total value of goods and services imported by a country.

2. **Which of the following statements is true regarding the relationship between GDP and welfare?**
(a) Higher GDP always leads to higher welfare for all citizens.
(b) Higher GDP guarantees improved living standards for all citizens.
(c) GDP is a comprehensive measure of societal well-being.
(d) GDP per capita is a useful but incomplete indicator of welfare.

3. **Which of the following factors is NOT considered in the calculation of GDP?**
   (a) Government spending on infrastructure projects
   (b) Investment in new factories and equipment
   (c) Income earned by citizens working abroad
   (d) Transfer payments, such as social welfare benefits

4. **Which of the following situations can lead to a discrepancy between GDP growth and citizens' well-being?**
   (a) When inflation is high, and GDP growth is low
   (b) When income inequality increases during a period of economic expansion
   (c) When a country's exports decrease, and GDP growth slows down
   (d) When government spending increases to fund public services and welfare programs

5. **Which of the following is a limitation of using GDP as a measure of welfare?**
   (a) GDP does not account for the value of goods and services produced in the informal sector.
   (b) GDP does not consider government spending on defense and security.
   (c) GDP does not take into account changes in the trade balance.
   (d) GDP does not capture the impact of technological advancements on productivity.

6. **Gross Domestic Product (GDP) is a measure of:**
   (a) The total population of a country
   (b) The total value of goods and services produced in a country
   (c) The total government spending in a country
   (d) The total imports and exports of a country

7. **Which of the following statements is true regarding GDP and welfare?**
   (a) A higher GDP always indicates higher welfare for the population.
   (b) GDP is unrelated to the well-being and welfare of the population.
   (c) GDP is a good indicator of economic growth but does not fully capture the overall welfare of the population.
   (d) GDP is a measure of income distribution among the population.

8. **Which of the following is an example of a limitation of using GDP as a measure of welfare?**
(a) GDP includes the value of illegal activities, such as drug trafficking.
(b) GDP accounts for environmental degradation and pollution.
(c) GDP reflects the level of education and healthcare in a country.
(d) GDP considers the distribution of income among different income groups.

9. **Which term refers to the total GDP adjusted for inflation or changes in price levels?**
(a) Real GDP (b) Nominal GDP
(c) Per capita GDP (d) Gross National Product (GNP)

10. **Which of the following factors is NOT considered in GDP calculations?**
(a) Government spending on infrastructure projects
(b) Private investment in businesses and factories
(c) Household savings and personal investments
(d) Value of intermediate goods used in the production process

1.7 - Limitations and Challenges of National Income Computation

1. **Which of the following is a limitation of using Gross Domestic Product (GDP) as a measure of economic welfare?**
(a) GDP does not account for changes in the population size.
(b) GDP includes the value of all final goods and services.
(c) GDP considers income distribution among different income groups.
(d) GDP measures the total value of goods and services produced.

2. **Which factor can lead to an overestimation of a country's GDP?**
(a) Inclusion of government transfer payments
(b) Exclusion of household consumption
(c) Exclusion of exports of goods and services
(d) Inclusion of imports of goods and services

3. **Which aspect is not adequately captured by GDP, making it an incomplete measure of economic performance?**
(a) Economic growth rate (b) Inflation rate
(c) Income distribution (d) Unemployment rate

4. **Which challenge arises due to the difficulty of accurately measuring the informal or underground economy?**
   (a) Seasonal adjustments
   (b) Double-counting of intermediate goods
   (c) Price fluctuations
   (d) Shadow economy estimation

5. **Which of the following is NOT a limitation of using GDP as a measure of well-being?**
   (a) GDP ignores the value of leisure time and non-market activities.
   (b) GDP does not account for environmental degradation and resource depletion.
   (c) GDP considers the level of investment in human capital and education.
   (d) GDP focuses solely on economic activities and production.

6. **Which of the following is a limitation of using National Income as a measure of economic welfare?**
   (a) It does not account for income inequality.
   (b) It includes the value of illegal activities in the economy.
   (c) It is difficult to calculate accurately.
   (d) It is not relevant for developed countries.

7. **Which challenge arises due to the existence of the informal or underground economy?**
   (a) Difficulty in measuring the overall economic output accurately
   (b) The inclusion of illegal activities in the GDP calculation
   (c) Inflationary pressure on the economy
   (d) Increased government expenditure

8. **Which of the following is a limitation of using GDP as an indicator of well-being in terms of environmental sustainability?**
   (a) GDP includes the value of illegal activities.
   (b) GDP does not consider income distribution.
   (c) GDP growth may be accompanied by environmental degradation.
   (d) GDP does not account for changes in price levels.

9. **Which limitation of National Income computation arises due to the exclusion of non-market activities and household production?**
(a) Overestimation of economic output
(b) Difficulty in calculating GDP at factor cost
(c) Underestimation of economic output and welfare
(d) Overestimation of economic growth rate

10. **Which challenge arises due to the constant changes in the structure of the economy and the introduction of new goods and services?**
(a) Difficulty in calculating inflation rate (b) Changes in government policies
(c) Difficulty in measuring real GDP (d) Difficulty in estimating the savings rate

ADDITIONAL QUESTION BANK

1.1 - National Income Accounting

1. **National income accounting is a method used to:**
(a) Calculate the total profits of private companies
(b) Measure the economic performance of a country
(c) Determine the total savings of the government
(d) Assess the inflation rate in the economy

2. **Gross Domestic Product (GDP) is defined as:**
(a) The total value of all goods and services produced within a country's borders in a specific time period
(b) The total value of all imports and exports of a country
(c) The total value of all goods and services produced by a country's citizens, regardless of their location
(d) The total value of all goods and services produced by a country's companies, regardless of their ownership

3. **Which of the following is NOT included in GDP calculations?**
(a) Investment spending by businesses
(b) Government spending on infrastructure
(c) Social security payments to retirees
(d) Consumer spending on durable goods

4. **The income approach to calculating GDP:**
   (a) Adds up all the wages, salaries, and profits earned in an economy
   (b) Only considers the total spending on final goods and services
   (c) Focuses on the net exports of a country
   (d) Includes only the value of intermediate goods and services

5. **Real GDP differs from Nominal GDP in that:**
   (a) Real GDP accounts for inflation, while Nominal GDP does not
   (b) Real GDP includes government spending, while Nominal GDP does not
   (c) Real GDP is measured in current market prices, while Nominal GDP is adjusted for inflation
   (d) Real GDP considers only the value of goods, while Nominal GDP includes services as well

6. **National Income is calculated as:**
   (a) GDP minus depreciation
   (b) GDP plus net exports
   (c) GDP minus indirect taxes and subsidies
   (d) GDP minus government spending

7. **The expenditure approach to calculating GDP:**
   (a) Adds up all the wages, salaries, and profits earned in an economy
   (b) Focuses on the total spending on final goods and services
   (c) Includes only the value of intermediate goods and services
   (d) Considers the net exports of a country

8. **Which of the following is a component of Gross Domestic Product (GDP)?**
   (a) Money supply in the economy
   (b) Unemployment rate
   (c) Government budget deficit
   (d) Investment spending by businesses

1.2 - Usefulness and Significance of National Income Estimates

1. **National income estimates are essential for:**
   (a) Calculating the profits of individual companies
   (b) Assessing the distribution of wealth in a country
   (c) Determining the exchange rates between currencies
   (d) Monitoring the stock market performance

2. **The primary use of national income estimates is to:**
(a) Measure the overall happiness and well-being of citizens
(b) Determine the economic growth rate of the country
(c) Calculate the total value of imports and exports
(d) Evaluate the effectiveness of foreign aid programs

3. **Why is it important to calculate Gross Domestic Product (GDP)?**
(a) To understand the unemployment rate in the country.
(b) To analyze the overall debt of the government
(c) To determine the total value of all goods and services produced the economy
(d) To evaluate the efficiency of the banking sector

4. **National income estimates help in comparing the economic performance of different countries by:**
(a) Converting all currencies to a common unit of measurement
(b) Focusing solely on the GDP growth rate
(c) Ignoring the impact of inflation on the economy
(d) Excluding the service sector from the calculations

5. **The per capita income, derived from national income estimates, is useful for:**
(a) Understanding the total population of a country
(b) Analyzing the average income of individuals in the country
(c) Measuring the total number of employed people
(d) Evaluating the performance of the agricultural sector

6. **One of the limitations of using national income estimates is that they:**
(a) Cannot account for the underground economy
(b) Overstate the value of intermediate goods
(c) Ignore the impact of international trade on the economy
(d) Focus excessively on government spending

7. **National income estimates help policymakers in making informed decisions about:**
(a) The promotion of consumer spending
(b) The allocation of resources and budget planning
(c) The reduction of inflation rates
(d) The regulation of the stock market

8. **In times of economic downturn, national income estimates can be used to:**
   (a) Encourage more foreign investments
   (b) Identify the sectors that require government bailouts
   (c) Increase taxes on businesses and individuals
   (d) Decrease government spending on infrastructure

1.3 - Different concepts of National Income

1. **Gross Domestic Product (GDP) is the total value of:**
   (a) All goods and services produced within a country's borders in a specific time period
   (b) All goods and services produced by a country's citizens, regardless of their location
   (c) All goods and services produced by a country's companies, regardless of their ownership
   (d) All final goods and services produced within a country's borders in a specific time period

2. **Gross National Product (GNP) differs from GDP in that GNP:**
   (a) Includes only the value of final goods and services
   (b) Excludes the value of exports
   (c) Accounts for depreciation of capital goods
   (d) Includes the value of goods and services produced by a country's citizens abroad

3. **Net National Product (NNP) is calculated by:**
   (a) Adding depreciation to GDP
   (b) Subtracting depreciation from GDP
   (c) Adding depreciation to GNP
   (d) Subtracting depreciation from GNP

4. **National Income (NI) is calculated by:**
   (a) Adding indirect taxes to NNP
   (b) Subtracting indirect taxes from NNP
   (c) Adding net foreign factor income to NNP
   (d) Subtracting net foreign factor income from NNP

5. **Personal Income (PI) is the total income received by:**
   (a) Individuals before paying personal taxes
   (b) Individuals after paying personal taxes
   (c) Households before paying personal taxes
   (d) Households after paying personal taxes

6. **Disposable Income (DI) is calculated by:**
   (a) Adding personal taxes to personal income
   (b) Subtracting personal taxes from personal income
   (c) Adding corporate taxes to personal income
   (d) Subtracting corporate taxes from personal income

7. **Which of the following represents the broadest measure of a country's national income?**
   (a) GDP (b) GNP (c) NNP (d) PI

8. **Gross National Income (GNI) is defined as:**
   (a) The total value of all goods and services produced by a country's companies, regardless of their ownership
   (b) The total value of all goods and services produced by a country's citizens, regardless of their location
   (c) The total value of all final goods and services produced within a country's borders in a specific time period
   (d) The total value of all goods and services produced within a country's borders, excluding foreign factors of production

1.4 - Measurement of National Income in India

1. **In India, the organization responsible for estimating national income is:**
   (a) Reserve Bank of India (RBI) (b) Ministry of Finance
   (c) Central Statistical Office (CSO) (d) Planning Commission

2. **Which of the following methods is primarily used to estimate national income in India?**
   (a) Production approach (b) Expenditure approach
   (c) income approach (d) All of the above

3. **The base year for estimating Gross Domestic Product (GDP) using constant prices in India is typically updated every:**
(a) 5 years (b) 7 years (c) 10 years (d) 12 years

4. **In India, Gross Domestic Product (GDP) at market prices is calculated by adding:**
(a) Indirect taxes and depreciation to GDP at factor cost
(b) Indirect taxes and net factor income from abroad to GDP at factor cost
(c) Indirect taxes and subsidies to GDP at factor cost
(d) Indirect taxes and net factor income from abroad to GDP at market prices

5. **National Income in India is also known as:**
(a) Gross National Product (GNP) (b) Net Domestic Product (NDP)
(c) Net National Product (NNP) (d) Gross Domestic Product (GDP)

6. **The Central Statistical Office (CSO) in India operates under the purview of the:**
(a) Ministry of Finance
(b) Ministry of Statistics and Programme Implementation
(c) Reserve Bank of India (RBI)
(d) Planning Commission

7. **In the context of India's national income estimation, GVA stands for:**
(a) Gross Value Added (b) Gross Variable Analysis
(c) Government Value Assessment (d) Government Variable Account

8. **Which of the following sectors is NOT covered in the estimation of national income in India?**
(a) Agriculture and Allied Activities (b) Manufacturing
(c) Financial Services (d) Household Consumption

1.5 - The System of Regional Accounts in India

1. **The System of Regional Accounts (SRA) in India aims to:**
(a) Calculate the national income of India
(b) Measure the economic performance of different states and regions within India
(c) Assess the exchange rates between different Indian states
(d) Determine the total imports and exports of each Indian state

2. **The Ministry responsible for the compilation of the System of Regional Accounts in India is:**

   (a) Ministry of Finance

   (b) Ministry of Commerce and Industry

   (c) Ministry of Home Affairs

   (d) Ministry of Statistics and Programme Implementation

3. **The base year used for estimating the System of Regional Accounts in India is generally revised every:**

   (a) 3 years (b) 5 years (c) 7 years (d) 10 years

4. **The regional accounts data in India provides insights into:**

   (a) The inflation rate in each state

   (b) The fiscal deficit of the central government

   (c) The economic activities and their contribution to each state's GDP

   (d) The foreign direct investments received by different Indian states

5. **Which of the following is NOT a component of the System of Regional Accounts in India?**

   (a) Gross State Domestic Product (GSDP)

   (b) Per Capita Income of states

   (c) Sectoral distribution of states' population

   (d) International trade data of each state

6. **The primary source of data used for compiling the System of Regional Accounts in India is:**

   (a) Annual reports of different state governments

   (b) Survey data collected by private agencies

   (c) Data from the Reserve Bank of India (RBI)

   (d) Data from various government departments and surveys conducted by the Central Statistical Office (CSO)

7. **The System of Regional Accounts helps in identifying the:**

   (a) Number of state-owned enterprises in each region

   (b) Level of unemployment in the country

(c) Disparities in economic growth and development among states
(d) Composition of the national budget

1.6 - Limitations and Challenges of National Income Computation

1. **One of the limitations of national income computation is that it:**
(a) Ignores the contribution of the services sector to the economy
(b) Overestimates the value of intermediate goods and services
(c) Excludes the impact of inflation on the economy
(d) Does not consider non-market activities and the informal economy

2. **The challenge of accurately measuring national income arises due to:**
(a) Difficulties in collecting data on government spending
(b) Limited availability of data on international trade
(c) The constantly changing structure of the economy
(d) The exclusion of the financial sector from the calculations

3. **Which of the following is NOT a challenge in computing national income?**
(a) Difficulty in accounting for depreciation of assets
(b) Estimating the value of household production and unpaid work
(c) Dealing with fluctuations in exchange rates
(d) Accounting for income generated from illegal activities

4. **National income computation may not accurately reflect the economic well-being of:**
(a) The government sector (b) The manufacturing sector
(c) The agricultural sector (d) Different income groups within the population

5. **One of the limitations of using Gross Domestic Product (GDP) as a measure of welfare is that it:**
(a) Does not account for income distribution within the country
(b) Ignores the value of net exports in the economy
(c) Overestimates the contribution of government spending to the economy
(d) Excludes the value of investment spending by businesses

6. **The concept of national income fails to consider the economic value of:**
   (a) Social security payments to retirees (b) Imports of goods and services
   (c) Gross fixed capital formation (d) National debt and government borrowing

7. **Which of the following does NOT pose a challenge in calculating Gross National Product (GNP)?**
   (a) Accounting for the income earned by foreign residents in the country
   (b) Estimating the value of exports of goods and services
   (c) Dealing with changes in the national currency's exchange rate
   (d) Measuring the value of capital goods used in the production process

ANSWERS (Unit 1):

1.1 - National Income Accounting

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	d	2.	b	3.	b	4.	c	5.	d
6.	a	7.	a	8.	b	9.	c	10.	a
11.	b	12.	b	13.	d				

1.2 - Usefulness and Significance of National Income Estimates

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	c	2.	b	3.	d	4.	b	5.	a
6.	c	7.	d	8.	b	9.	b	10.	b
11.	b	12.	a	13.	c	14.	d	15.	b

1.3 - Different Concepts of National Income

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	a	2.	b	3.	a	4.	b	5.	a
6.	b	7.	b	8.	b	9.	c	10.	a
11.	c	12.	a	13.	c	14.	d	15.	b

1.3.1 - Gross Domestic Product

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	c	2.	c	3.	b	4.	c	5.	a
6.	b								

1.3.2 - Gross National Product (GNP)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	c	2.	c	3.	c	4.	c		

1.3.4 - Net National Product at Market Prices (NNPMP)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	a	3.	d				

1.3.5 - Gross Domestic Product at Factor Cost (GDPFC)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	c	2.	c	3.	c				

1.3.6 - Net Domestic Product at Factor Cost (NDPFC)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	c	2.	c	3.	c				

1.3.7 - Net National Product at Factor Cost (NNPFC)or National Income

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	c	2.	c	3.	c				

1.3.8 - Per Capita Income

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	a	2.	c	3.	b				

1.3.9 - Personal Income

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	c	3.	a	4.	a	5.	b
6.	c								

1.3.10 - Disposable Personal Income (DI)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	a	2.	d	3.	a	4.	c	5.	c
6.	c								

1.3.11 - Private Income

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	a	3.	a	4.	b	5.	a
6.	a								

1.4 - Measurement of National Income in India

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	a	3.	c	4.	a	5.	c
6.	c	7.	d	8.	c	9.	a	10.	d
11.	c	12.	c	13.	b	14.	c	15.	b

1.4.1 - The Circular Flow of Income

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	a	2.	c	3.	a	4.	a	5.	b
6.	b								

1.4.2 - Value Added Method or Product Method

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	a	2.	d	3.	d	4.	d	5.	d
6.	c								

1.4.3 - Income Method

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	c	2.	b	3.	d	4.	c	5.	a
6.	b								

1.4.4 Expenditure Method

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	c	3.	b	4.	a	5.	a
6.	c								

1.5 - The System of Regional Accounts in India

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	c	3.	d	4.	d	5.	d
6.	b	7.	c	8.	b	9.	c	10.	c

1.6 - GDP and Welfare

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	a	2.	d	3.	d	4.	b	5.	a
6.	b	7.	c	8.	a	9.	a	10.	c

1.7 - Limitations and Challenges of National Income Computation

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	a	2.	a	3.	c	4.	d	5.	c
6.	a	7.	a	8.	c	9.	c	10.	c

ADDITIONAL QUESTION BANK

1.1 - National Income Accounting

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	a	3.	c	4.	a	5.	a
6.	c	7.	b	8.	d				

1.2 - Usefulness and Significance of National Income Estimates

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	b	3.	c	4.	a	5.	b
6.	a	7.	b	8.	b				

1.3 - Different concepts of National Income

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	a	2.	d	3.	b	4.	b	5.	b
6.	b	7.	b	8.	b				

1.4 - Measurement of National Income in India

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	c	2.	d	3.	a	4.	d	5.	c
6.	b	7.	a	8.	d				

1.5 - The System of Regional Accounts in India

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	d	3.	b	4.	c	5.	d
6.	d	7.	c						

1.6 - Limitations and Challenges of National Income Computation

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	d	2.	c	3.	c	4.	d	5.	a
6.	a	7.	d						

Unit 2: THE KEYNESIAN THEORY OF DETERMINATION OF NATIONAL INCOME

2.1 - Introduction

1. **What is the central proposition of Keynesian theory regarding the determination of national income?**

   (a) National income is determined by aggregate supply.

   (b) National income is determined by aggregate demand.

   (c) National income is determined by both aggregate supply and aggregate demand.

   (d) National income is determined by the government's fiscal policy.

2. **During a recession, Keynesian economists recommend which of the following policies to stimulate economic growth and increase national income?**

   (a) Decreasing government spending and raising taxes.

   (b) Decreasing the money supply to control inflation.

   (c) Increasing government spending and lowering taxes.

   (d) Reducing exports to protect domestic industries.

3. **In the Keynesian model, what is the role of private investment in determining national income?**

   (a) Private investment has no impact on national income.

   (b) Private investment solely determines national income.

   (c) Private investment is a component of aggregate demand affecting national income..

   (d) Private investment only affects the inflation rate, not national income.

4. **According to the Keynesian theory, what can lead to a situation of "underemployment equilibrium" in an economy?**

   (a) When aggregate demand exceeds aggregate supply.

   (b) When aggregate supply exceeds aggregate demand.

   (c) When there is full employment in the economy.

   (d) When aggregate demand is insufficient to create full employment.

5. **Which of the following represents the primary tool for the government to influence aggregate demand and stabilize the economy, according to Keynesian economics?**

(a) Monetary policy. (b) Fiscal policy.

(c) Supply-side policies. (d) Exchange rate policy.

6. **Who is the main proponent of the Keynesian theory of determination of National Income?**

(a) Adam Smith (b) John Maynard Keynes

(c) Milton Friedman (d) Friedrich Hayek

7. **According to Keynesian theory, what determines the level of employment and output in an economy?**

(a) Consumer preferences and saving habits

(b) Government spending and taxation policies

(c) The interaction of aggregate demand and aggregate supply

(d) The natural rate of unemployment

8. **The central idea of the Keynesian theory is that:**

(a) Government intervention is necessary to stabilize the economy

(b) The market forces alone can ensure full employment and economic stability

(c) Tax cuts are the most effective tool for economic growth

(d) Private investment is the primary driver of economic prosperity

9. **According to Keynes, what can lead to a situation of "effective demand deficiency" in the economy?**

(a) Excessive government spending

(b) High levels of consumer saving

(c) Low interest rates set by the central bank

(d) High levels of inflation

10. **Keynesian theory suggests that during an economic downturn, the government should implement:**

(a) Austerity measures to reduce public debt

(b) Supply-side policies to boost production

(c) Contractionary monetary policies to control inflation
(d) Expansionary fiscal policies to increase spending

11. Keynes argued that during periods of economic recession or the government should:
(a) Increase taxes to reduce budget deficits
(b) Reduce government spending to control inflation depression,
(c) Decrease interest rates to encourage private investment
(d) Increase government spending to stimulate aggregate demand

12. The concept of "Multiplier Effect" in the Keynesian theory suggests that:
(a) Changes in government spending have a larger impact on National Income than changes in taxes.
(b) A change in investment leads to a proportionate change in National Income.
(c) Increases in exports result in higher economic growth and employment.
(d) Changes in consumption have a direct and immediate impact on investment.

13. According to Keynes, in situations of insufficient aggregate demand, the economy may experience:
(a) Demand-pull inflation (b) Cost-push inflation
(c) Deflation and unemployment (d) Stagflation

2.2 - Circular Flow in a Simple Two-sector Model

1. In a simple two-sector model of the circular flow, the two sectors are:
(a) Government and households (b) Business firms and households
(c) Government and business firms (d) Foreign sector and households

2. In the circular flow model, which sector is the ultimate consumer of goods a and services?
(a) Business firms (b) Households (c) Government (d) Foreign sector

3. In the circular flow model, which sector supplies factors of production to business firms?
(a) Government (b) Households (c) Business firms (d) Foreign sector

4. **Which of the following flows represents the payment made by business firms to households for providing factors of production?**
(a) Factor payments (b) Transfer payments
(c) Investment spending (d) Consumption expenditure

5. **In the circular flow model, which sector provides funds to business firms for investment purposes?**
(a) Government (b) Households (c) Business firms (d) Foreign sector

6. **In the circular flow model, households are the:**
(a) Sellers of goods and services and buyers of factors of production
(b) Buyers of goods and services and sellers of factors of production
(c) Buyers of goods and services and buyers of factors of production
(d) Sellers of goods and services and sellers of factors of production

7. **Which of the following best represents the flow of goods and services in the circular flow model?**
(a) Money flows from households to businesses for goods and services.
(b) Goods and services flow from households to businesses in exchange for money.
(c) Money flows from businesses to households for factors of production.
(d) Factors of production flow from businesses to households in exchange for money.

8. **Savings in the circular flow model refer to:**
(a) The money that businesses save from their profits
(b) The money that households save from their income
(c) The money that businesses invest in new projects
(d) The money that households spend on goods and services

9. **In the circular flow model, the total value of goods and services produced in the economy is measured by:**
(a) Gross Domestic Product (GDP) (b) Gross National Product (GNP)
(c) Net Domestic Product (NDP) (d) Net National Product (NNP)

10. In the circular flow model, households receive income in the form of:
(a) Profits (b) Taxes (c) Wages, rent, and interest (d) Government transfers

11. Which component of the circular flow represents the total spending by households on goods and services?
(a) Savings (b) Investment
(c) Government spending (d) Consumption expenditure

12. In the two-sector circular flow model, savings by households are equal to:
(a) Consumption expenditure (b) Taxes paid to the government
(c) Investment by firms (d) Government spending

13. The circular flow model assumes that all income earned by households is either spent on consumption or saved, and there is no:
(a) Government intervention (b) Investment by firms
(c) Financial sector (d) Foreign trade

2.3 Basic Concepts and Functions

1. In economics, the study of how individuals and societies allocate limited resources to satisfy their unlimited wants is known as:
(a) Microeconomics (b) Macroeconomics
(c) Economic planning (d) Economics

2. The total value of all final goods and services produced within a country's borders during a specific time period is known as:
(a) Gross Domestic Product (GDP) (b) Gross National Product (GNP)
(c) Net National Product (NNP) (d) National Income

3. Which of the following is NOT a factor of production in economics?
(a) Land (b) Labor (c) Capital (d) Money

4. The price at which the quantity demanded of a good or service equals the quantity supplied is known as:
(a) Equilibrium price (b) Market price (c) Maximum price (d) Minimum price

5. **The study of how individuals and firms make decisions and interact in markets is known as:**
(a) Macroeconomics (b) Microeconomics
(c) Economic planning (d) Econometrics

6. **Which of the following is a basic concept in economics that refers to the limited nature of resources?**
(a) Opportunity cost (b) Scarcity
(c) Inflation (d) Gross Domestic Product (GDP)

7. **Opportunity cost is defined as:**
(a) The cost of producing one additional unit of a good or service
(b) The total cost of all inputs used in the production process
(c) The highest-valued alternative given up when a choice is made
(d) The difference between total revenue and total cost

8. **Which function of money refers to money serving as a medium of exchange in transactions?**
(a) Store of value (b) Unit of account
(c) Medium of exchange (d) Standard of deferred payment

9. **The Consumer Price Index (CPI) is a measure of:**
(a) The overall level of prices in an economy
(b) The total output produced in an economy
(c) The unemployment rate in an economy
(d) The government's budget deficit

10. **The total market value of all final goods and services produced within a country's borders during a specific time period is known as:**
(a) Gross Domestic Product (GDP) (b) Gross National Product (GNP)
(c) Net Domestic Product (NDP) (d) Net National Product (NNP)

11. **The total value of all goods and services produced within a country's borders during a specific time period is known as:**
(a) Gross National Product (GNP) (b) Gross Domestic Product (GDP)
(c) Net Domestic Product (NDP) (d) Net National Product (NNP)

12. **The measure of the responsiveness of quantity demanded of a good to a change in its price is known as:**
(a) Elasticity of demand (b) Elasticity of supply
(c) Marginal utility (d) Consumer surplus

13. **Which type of unemployment occurs when there is a temporary mismatch between job seekers and available job vacancies?**
(a) Cyclical unemployment (b) Frictional unemployment
(c) Structural unemployment (d) Seasonal unemployment

14. **The interest rate at which a central bank lends money to commercial banks is known as:**
(a) Prime rate (b) Discount rate (c) Federal funds rate (d) LIBOR rate

2.3.1 - Aggregate Demand Function

1. **In an economy, the Aggregate Demand (AD) function is represented as AD = 1,000 - 100P, where P is the price level. Calculate the Aggregate Demand when the price level is ₹ 5.**
(a) 1,500 (b) 500 (c) 1,000 (d) 2,000

2. **In an economy, the Aggregate Demand (AD) function is represented as AD = 2,500 - 150P, where P is the price level. Calculate the Aggregate Demand when the price level is ₹ 10.**
(a) 1,500 (b) 2,500 (c) 2,000 (d) 3,000

3. **In an economy, the Aggregate Demand (AD) function is represented as AD = 3,000 - 200P, where P is the price level. Calculate the Aggregate Demand when the price level is ₹ 15.**
(a) 2,500 (b) 3,000 (c) 1,500 (d) 2,000

4. **In an economy, the aggregate demand (AD) function is represented as AD = 2,000 - 100P, where P is the price level. Calculate the equilibrium level of aggregate demand when the price level (P) is ₹ 15.**
   (a) ₹ 1,000 (b) ₹ 2,500 (c) ₹ 1,500 (d) ₹ 500

2.3.2 - The Consumption Function

1. **In an economy, the consumption function is represented as C = 500 + 0.8Y, where Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 2,000.**
   (a) ₹ 1,800 (b) ₹ 1,900 (c) ₹ 2,500 (d) ₹ 2,200

2. **In an economy, the consumption function is represented as C = 500 + 0.8Y, where C is consumption and Y is disposable income. Calculate the level of consumption when disposable income (Y) is ₹ 1,000.**
   (a) 1,200 (b) ₹ 1,300 (c) ₹ 1,400₹ (d) ₹ 1,500

3. **In an economy, the consumption function is represented as C = 1,000 + 0.8Y, where Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 2,000.**
   (a) ₹ 800 (b) ₹ 1,200 (c) ₹ 2,400 (d) ₹ 2,800

2.3.3 - Relationship Between Income and Consumption

1. **In an economy, the consumption function is represented as C = 800 + 0.6Y, where Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 3,000.**
   (a) ₹ 1,000 (b) ₹ 1,800 (c) ₹ 2,200 (d) ₹ 1,400

2. **In an economy, the consumption function is represented as C = 800 + 0.6Y, where Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 2,500.**
   (a) ₹ 1,500 (b) ₹ 2,000 (c) ₹ 2,200 (d) ₹ 2,800

3. **In an economy, the consumption function is represented as C = 1,000 + 0.8Y, where C is the consumption and Y is the disposable income. Calculate the level of consumption when the disposable income (Y) is ₹ 5,000.**
   (a) ₹ 1,800 (b) ₹ 3,800 (c) ₹ 4,000 (d) ₹ 5,000

2.3.4 - The Relationship Between Income, Consumption and Saving

1. **In an economy, the consumption function is represented as C = 1,000 + 0.6Y, where C is the consumption and Y is the disposable income. Calculate the level of saving when the disposable income (Y) is ₹ 4,000.**

   (a) ₹ 2,400 (b) ₹ 1,600 (c) ₹ 2,000 (d) 1,000

2. **In an economy, the consumption function is represented as C = 800 + 0.6 Y, where C is the consumption, Y is the disposable income, and S is the saving. Calculate the level of saving when the disposable income (Y) is ₹ 2,000.**

   (a) ₹ 1,200 (b) ₹ 800 (c) ₹ 400 (d) ₹ 1,600

3. **In an economy, the consumption function is represented as C = 1,000 + 0.6Y, where C is the consumption, and Y is the disposable income. Calculate the level of saving when the disposable income (Y) is 4,000.**

   (a) ₹ 600 (b) ₹ 1,600 (c) ₹ 2,400 (d) ₹ 2,600

2.3.5 - Aggregate Supply

1. **In an economy, the short-run aggregate supply (SRAS) curve is represented as SRAS = 1,500+ 0.5P, where P is the price level. Calculate the level of aggregate supply when the price level (P) is ₹ 10.**

   (a) ₹ 1,550 (b) ₹ 2,000 (c) ₹ 2,500 (d) ₹ 1,000

2. **In an economy, the short-run aggregate supply (SRAS) curve is represented as SRAS = 2,000+ 100P, where P is the price level. Calculate the level of aggregate supply when the price level (P) is ₹ 10.**

   (a) ₹ 2,100 (b) ₹ 3,000 (c) ₹ 2,500 (d) ₹ 2,200

3. **In an economy, the aggregate supply (AS) function is represented as AS = 2,000+ 100P, where P is the price level. Calculate the level of aggregate supply when the price level (P) is ₹ 10.**

   (a) ₹ 2,000 (b) ₹ 3,000 (c) ₹ 2,100 (d) ₹ 2,500

2.4 - The Two-sector Model of National Income Determination

1. **In the two-sector model of National Income determination, the two main sectors are:**
(a) Government and households (b) Government and foreign trade
(c) Households and firms (businesses) (d) Firms (businesses) and foreign trade

2. **In the two-sector model, the total output produced by firms is either consumed by households or:**
(a) Saved by households (b) Invested by firms
(c) Exported to foreign countries (d) Imported from foreign countries

3. **In the two-sector model, the total income earned by households is either spent on consumption or:**
(a) Invested by firms (b) Taxed by the government
(c) Exported to foreign countries (d) Imported from foreign countries

4. **In the two-sector model, the equilibrium level of National Income occurs when:**
(a) Total consumption equals total investment
(b) Total savings equals total investment
(c) Total consumption equals total savings
(d) Total income equals total expenditure

5. **If total consumption in the two-sector model is greater than total income, the economy will experience:**
(a) An increase in inventories (b) An increase in investment
(c) An increase in National Income (d) A decrease in National Income

6. **In the two-sector model, the income earned by households is allocated between:**
(a) Taxes and Savings (b) Consumption and Savings
(c) Consumption and Investment (d) Taxes and Investment

7. **In the two-sector model, the equilibrium condition is achieved when:**
(a) Consumption equals savings (b) Consumption exceeds savings
(c) Savings exceed consumption (d) Consumption and savings are both zero

8. **If in the two-sector model, consumption exceeds income, it would result in:**
(a) Equilibrium (b) A budget surplus
(c) A budget deficit (d) An increase in investment

9. **In the two-sector model, investment is assumed to be:**
(a) Autonomous (b) Derived
(c) Dependent on consumption (d) Dependent on government spending

10. **In the two-sector model, the total income earned by households is divided into two components: consumption expenditure (C) and:**
(a) Gross Domestic Product (GDP) (b) Investment (1)
(c) Net exports (NX) (d) Savings (S)

11. **The equilibrium condition in the two-sector model occurs when:**
(a) Savings are greater than investment (b) Consumption equals investment
(c) Savings equal investment (d) Consumption equals GDP

12. **If, in the two-sector model, aggregate savings are greater than aggregate investment, the economy is in:**
(a) Recession (b) Equilibrium (c) Inflation (d) Unemployment

13. **The formula for calculating national income (Y) in the two-sector model is:**
(a) Y = C - S (b) Y = C + S (c) Y = C + 1 (d) Y = C – I

2.4.1 - Equilibrium with Unemployment or Inflation

1. **In an economy, the aggregate demand (A(d) function is represented as AD=2,000-100P, and the short-run aggregate supply (SRAS) function is represented as SRAS = 1,000 + 150P. Calculate the equilibrium price level (P) and output level when the economy is at equilibrium.**
(a) P = ₹ 6, Y = 1,400 (b) P = ₹ 8, Y= 1,200
(c) P = ₹ 10, Y = 1,000 (d) P = ₹ 12, Y = 800

2. **In an economy, the aggregate demand (AD) and short-run aggregate supply (SRAS) functions are given by AD = 2,000 - 100P and SRAS = 1,000+ 150P, where P is the price level. Calculate the equilibrium price level and output level.**

   (a) Equilibrium price level: ₹ 8; Output level: 1,400 units

   (b) Equilibrium price level: ₹ 10; Output level: 1,500 units

   (c) Equilibrium price level: ₹ 12; Output level: 1,600 units

   (d) Equilibrium price level: ₹ 6; Output level: 1,200 units

3. **In an economy, the aggregate demand (A(d) function is represented as AD 2,000 100P, and the short-run aggregate supply (SRAS) function is represented as SRAS = 500 + 100P. Calculate the equilibrium price level and output level in the economy.**

   (a) Equilibrium price level = ₹ 8; Equilibrium output level = 1,200 units

   (b) Equilibrium price level = ₹ 10; Equilibrium output level = 1,000 units

   (c) Equilibrium price level = ₹ 12; Equilibrium output level = 800 units

   (d) Equilibrium price level = ₹ 14; Equilibrium output level = 600 units

2.5 The Investment Multiplier

1. **The investment multiplier measures the relationship between:**

   (a) Consumer spending and investment

   (b) Government spending and investment

   (c) Investment and changes in national income

   (d) Changes in national income and consumer spending

2. **The formula to calculate the investment multiplier is:**

   (a) Investment Multiplier = 1 / Marginal Propensity to Consume (MPC)

   (b) Investment Multiplier = 1 / Marginal Propensity to Save (MPS)

   (c) Investment Multiplier = 1 + Marginal Propensity to Consume (MPC)

   (d) Investment Multiplier = 1 + Marginal Propensity to Save (MPS)

3. **If the Marginal Propensity to Save (MPS) is 0.2, what is the value of the investment multiplier?**

   (a) 1.2 (b) 5 (c) 0.2 (d) 0.8

4. **The investment multiplier indicates that an increase in investment of a certain amount will lead to a/an:**

(a) Smaller increase in national income (b) Equal decrease in national income

(c) Larger increase in national income (d) No change in national income

5. **The investment multiplier assumes that:**

(a) The economy is at full employment (b) Consumer spending is constant

(c) Government spending is constant (d) There are no leakages in the economy

6. **The investment multiplier measures the:**

(a) Increase in government spending due to an increase in investment

(b) Increase in investment due to an increase in government spending

(c) Total change in national income resulting from a change in investment

(d) Total change in investment resulting from a change in national income

7. **The value of the investment multiplier is calculated as:**

(a) 1/Marginal Propensity to Consume (MPC)

(b) Marginal Propensity to Consume (MPC)/1

(c) 1/Marginal Propensity to Save (MPS)

(d) Marginal Propensity to Save (MPS)/1

8. **If the Marginal Propensity to Consume (MPC) is 0.8, the value of the investment multiplier will be:**

(a) 2 (c) 4 (b) 3 (d) 5

9. **The investment multiplier can be used to calculate the total change in income when there is an autonomous increase in investment. Autonomous investment refers to investment that:**

(a) Depends on changes in income

(b) Does not depend on changes in income

(c) Is made by the government sector

(d) Is made by the foreign sector

10. If the investment multiplier is 3, an initial increase in investment of ₹ 100 million will lead to a total increase in national income of:

(a) ₹ 200 million (b) ₹ 300 million (c) ₹ 400 million (d) ₹ 500 million

11. The investment multiplier measures the:

(a) Change in investment due to changes in interest rates.

(b) Change in investment due to changes in government spending.

(c) Change in national income due to changes in investment.

(d) Change in consumption due to changes in income.

12. The formula for calculating the investment multiplier is:

(a) Investment Multiplier = 1 / Marginal Propensity to Consume (MPC)

(b) Investment Multiplier = 1 / Marginal Propensity to Save (MPS)

(c) Investment Multiplier = 1 / Marginal Propensity to Import (MPI)

(d) Investment Multiplier = 1 / Marginal Propensity to Invest (MPI)

13. If the marginal propensity to consume (MPC) is 0.8, the value of the investment multiplier would be:

(a) 0.8 (c) 0.2 (b) 5 (d) 2

14. The investment multiplier is based on the idea that an initial change in investment:

(a) Directly affects consumption spending by households.

(b) Indirectly affects consumption and investment spending through changes in interest rates.

(c) Indirectly affects consumption spending by households.

(d) Directly affects government spending.

15. If the investment multiplier is 4, a 100 million increase in investment will lead to a total increase in national income of:

(a) ₹200 million (b) ₹ 400 million (c) ₹ 600 million (d) ₹ 800 million

2.6 - Determination of Equilibrium Income: Three Sector Model

1. **In the three-sector model, the three main sectors of the economy are:**
   (a) Government, households, and foreign trade
   (b) Government, households, and financial institutions
   (c) Households, firms (businesses), and foreign trade
   (d) Households, firms (businesses), and financial institutions

2. **In the three-sector model, the equilibrium condition occurs when:**
   (a) Total consumption equals total savings
   (b) Total income equals total consumption
   (c) Total income equals total expenditure
   (d) Total savings equals total investment

3. **The formula for calculating the equilibrium level of income (Y) in the three-sector model is:**
   (a) Y=C+1+G (b) Y=C+S+T (c) Y=C+1+NX (d) Y=C+1-NX

4. **If in the three-sector model, total consumption is ₹ 800 million, total investment is ₹ 200 million, government expenditure is ₹ 300 million, and net exports are ₹ 50 million, the equilibrium level of income (Y) would be:**
   (a) ₹ 1,050 million (b) ₹ 1,250 million (c) ₹ 750 million (d) ₹ 1,350 million

5. **If in the three-sector model, total consumption is ₹ 500 million, total investment is ₹ 300 million, government expenditure is ₹ 200 million, and net exports are -₹50 million (trade deficit), the equilibrium level of income (Y) would be:**
   (a) ₹ 1,050 million (b) ₹950 million (c) ₹ 750 million (d) ₹1,150 million

6. **In a three-sector model, the three main sectors of the economy are:**
   (a) Households, firms, and government.
   (b) Households, firms, and foreign trade
   (c) Households, firms, and banks
   (d) Households, firms, and financial institutions

7. In a three-sector model, the equilibrium condition occurs when:

(a) Aggregate savings equal aggregate investment

(b) Aggregate consumption equals aggregate income

(c) Total exports equal total imports

(d) Total government spending equals total tax revenue

8. If, in the three-sector model, aggregate consumption is greater than aggregate income, the economy is in:

(a) Recession (b) Equilibrium (c) Inflation (d) A trade surplus

9. The formula for calculating the equilibrium level of income (Y) in a three-sector model is:

(a) YG-1+X-M (b) Y=C+1+G (c) Y=C+S+T (d) Y=C+1+X

10. The concept of the marginal propensity to import (MPM) in a three-sector model refers to:

(a) The change in government spending due to changes in income.

(b) The change in consumption due to changes in income.

(c) The change in imports due to changes in income.

(d) The change in investment due to changes in interest rates.

11. The formula for calculating national income (Y) in the three-sector model is:

(a) Y=C+S (b) Y=C+1 (c) Y=C+T (d) Y=C+T+1

12. In the three-sector model, the total income earned by households is divided into three components: consumption expenditure (C), savings (S), and:

(a) Taxes (T) (b) Investment (1)

(c) Exports (X) (d) Government expenditure (G)

13. The equilibrium condition in the three-sector model occurs when:

(a) Total consumption equals total income

(b) Total savings equal total investment

(c) Total consumption plus total taxes equal total income

(d) Total exports equal total imports

14. If, in the three-sector model, aggregate consumption and taxes are greater than aggregate income, it indicates that:

(a) The economy is in equilibrium
(b) The economy is in recession
(c) The economy is facing a surplus
(d) The economy is facing a deficit

2.6.1 - The Government Sector and Income Determination

1. In an economy, the government purchases of goods and services (G) are ₹500 billion, taxes (T) are ₹300 billion, transfer payments (TR) are ₹100 billion, and the disposable income (YD) is ₹1,500 billion. Calculate the level of government savings or dissavings.

(a) Government savings of ₹200 billion
(b) Government dissavings of ₹100 billion
(c) Government dissavings of ₹200 billion
(d) Government savings of ₹100 billion

2. In an economy, the government increases its spending on infrastructure projects and welfare programs. As a result, the government expenditure (G) increases by ₹100 billion. How will this increase in government expenditure affect the equilibrium level of income in the economy, assuming the marginal propensity to consume (MPC) is 0.8?

(a) The equilibrium level of income will increase by ₹100 billion.
(b) The equilibrium level of income will decrease by ₹ 100 billion.
(c) The equilibrium level of income will increase by ₹ 500 billion.
(d) The equilibrium level of income will decrease by ₹ 500 billion.

3. In an economy, the government increases its spending on infrastructure projects and welfare programs. As a result, the government expenditure (G) increases by ₹200 billion. How will this increase in government expenditure affect the equilibrium level of income (Y) in the economy, assuming a simple Keynesian model?

(a) The equilibrium level of income (Y) will increase by ₹ 200 billion.
(b) The equilibrium level of income (Y) will decrease by ₹ 200 billion.
(c) The equilibrium level of income (Y) will not change.
(d) The equilibrium level of income (Y) will change, but the direction of change cannot be determined without more information.

4. **In an economy, the government purchases (G) are ₹ 500 billion, taxes (T) are ₹300 billion, transfer payments (TR) are ₹100 billion, and the disposable income (YD) is ₹1,800 billion. Calculate the level of government savings or dissavings (Sg).**

(a) Government savings (Sg) = ₹ 100 billion

(b) Government savings (Sg) = - ₹100 billion

(c) Government savings (Sg) = ₹300 billion

(d) Government savings (Sg) = - ₹300 billion

2.7 - Determination of Equilibrium Income: Four Sector Model

1. **In the four-sector model, the total income earned by households is divided into four components: consumption expenditure (C), savings (S), taxes (T), and:**

(a) Exports (X) (b) Imports (M)

(c) Investment (1) (d) Government expenditure (G)

2. **The equilibrium condition in the four-sector model occurs when:**

(a) Total consumption equals total income

(b) Total savings equal total investment

(c) Total consumption plus total taxes equal total income

(d) Total exports equal total imports

3. **If, in the four-sector model, aggregate consumption and taxes are greater than aggregate income, it indicates that:**

(a) The economy is in equilibrium (b) The economy is in recession

(c) The economy is facing a surplus (d) The economy is facing a deficit

4. **In the four-sector model, the net exports (NX) component represents:**

(a) Total consumption by households

(b) Total government expenditure

(c) Total investment by firms

(d) The difference between exports (X) and imports (M)

5. **The formula for calculating national income (Y) in the four-sector model is:**
(a) Y = C+S (b) Y=C+T (c) Y=C+T+1 (d) Y=C+T+1+NX

6. **In the four-sector model, the four main sectors of the economy are:**
(a) Households, firms (businesses), government, and foreign trade
(b) Households, firms (businesses), government, and financial institutions
(c) Households, firms (businesses), government, and banks
(d) Households, firms (businesses), government, and central bank

7. **In the four-sector model, the total income earned by households is divided into four components: consumption expenditure (c), savings (S), taxes (T), and:**
(a) Imports (M) (b) Exports (X)
(c) Government expenditure (G) (d) Investments (1)

8. **The equilibrium condition in the four-sector model occurs when:**
(a) Total consumption plus total taxes equal total income
(b) Total consumption plus total investment equal total income
(c) Total savings plus total investment equal total income
(d) Total exports equal total imports

9. **If, in the four-sector model, aggregate consumption, taxes, and imports are greater than aggregate income, it indicates that:**
(a) The economy is in equilibrium (b) The economy is in recession
(c) The economy is facing a surplus (d) The economy is facing a deficit

10. **The formula for calculating national income (Y) in the four-sector model is:**
(a) Y=C+S (b) Y=C+1 (c) Y=C+T+X (d) Y=C+T+1+X-M

2.8 - Conclusion

1. **According to the Keynesian theory, during an economic recession, the government should:**
(a) Decrease government spending to reduce budget deficits.
(b) Increase taxes to control inflation.

(c) Increase government spending to stimulate aggregate demand.
(d) Decrease interest rates to encourage private investment.

2. **The Keynesian theory emphasizes that in times of economic downturns, the primary cause of unemployment is:**
(a) Technological advancements leading to job losses.
(b) Structural changes in the economy.
(c) Insufficient aggregate demand.
(d) Excessive government intervention.

3. **The concept of the "Multiplier Effect" in the Keynesian theory suggests that:**
(a) Government spending has a larger impact on national income than changes in taxes.
(b) A change in investment leads to a proportionate change in national income.
(c) Increases in exports result in higher economic growth and employment.
(d) Changes in consumption have a direct and immediate impact on investment.

4. **According to the Keynesian theory, during periods of high inflation, the government should focus on:**
(a) Increasing government spending to boost aggregate demand.
(b) Reducing taxes to encourage consumption.
(c) Decreasing money supply and raising interest rates to control spending.
(d) Encouraging private investment through tax incentives.

5. **The Keynesian theory highlights that during economic downturns, there may be a role for the government to engage in:**
(a) Active fiscal and monetary policies to stabilize the economy.
(b) Laissez-faire and minimal government intervention.
(c) Decreasing public expenditure to reduce budget deficits.
(d) Reducing public debt to promote economic growth.

6. **The conclusion of the Keynesian theory of determination of national income is that:**
(a) The government should play a minimal role in the economy.

(b) Government intervention is necessary to stabilize the economy and achieve full employment.

(c) The economy will always be in a state of equilibrium without any government intervention.

(d) Monetary policy is the most effective tool to control inflation and unemployment.

7. **According to the Keynesian theory, during times of economic recession, the government should:**

(a) Decrease taxes to boost consumer spending.

(b) Decrease government spending to reduce budget deficits.

(c) Increase taxes to reduce inflation.

(d) Increase government spending to stimulate aggregate demand.

8. **The Keynesian theory suggests that changes in aggregate demand can lead to fluctuations in:**

(a) The exchange rate.

(b) Interest rates.

(c) Unemployment and inflation.

(d) Stock market prices.

9. The primary focus of the Keynesian theory is on:

(a) Long-term economic growth.

(b) Achieving price stability.

(c) Short-run economic fluctuations and stabilizing the economy.

(d) Increasing international trade.

10. **The Keynesian theory influenced the development of economic policies during:**

(a) The Great Depression in the 1930s.

(b) The Industrial Revolution in the 18th century.

(c) The Renaissance period in Europe.

(d) The post-World War II era.

ADDITIONAL QUESTION BANK

2.1 - Introduction

1. **The Keynesian theory of determination of national income was proposed by:**
(a) Adam Smith (b) John Maynard Keynes
(c) Milton Friedman (d) Friedrich Hayek

2. **According to the Keynesian theory, the level of national income is primarily determined by:**
(a) Aggregate demand in the economy (b) Aggregate supply in the economy
(c) The government's fiscal policy (d) The central bank's monetary policy

3. **The central idea of the Keynesian theory is that:**
(a) Supply creates its own demand in the economy
(b) Savings and investment are equal in the long run
(c) The economy can experience prolonged periods of unemployment
(d) Government intervention is unnecessary in a free-market economy

4. **Keynes argued that during economic downturns, the government should:**
(a) Reduce taxes and increase government spending
(b) Increase taxes and reduce government spending
(c) Allow market forces to correct the imbalances in the economy
(d) Privatize state-owned enterprises to stimulate economic growth

5. **The concept of "effective demand" in the Keynesian theory refers to:**
(a) The total demand for goods and services in the economy
(b) The demand for goods and services by the government sector
(c) The demand for exports and imports in the economy
(d) The demand for consumer goods only, excluding investment

6. **Keynesian policies are designed to address:**
(a) Short-run fluctuations in the business cycle
(b) Long-run structural issues in the economy
(c) Inflationary pressures in the economy
(d) Excessive government debt and deficits

7. In the Keynesian theory, if aggregate demand is insufficient to achieve full employment, the result will be:

(a) Inflation (b) Deflation

(c) Recession or unemployment (d) Economic growth and stability

8. The Keynesian theory gained prominence during which historical period?

(a) The Great Depression of the 1930s

(b) The Industrial Revolution of the 18th century

(c) The Renaissance era in Europe

(d) The dot-com bubble of the late 1990s

2.2 - Circular Flow in a Simple Two-sector Model

1. In a simple two-sector model of the economy, the two main sectors are:

(a) Household and government (b) Household and business

(c) Business and government (d) Household and financial

2. The circular flow model illustrates the flow of:

(a) Goods and services and money between households and firms

(b) Goods and services and money between households and the government

(c) Goods and services and money between businesses and the government

(d) Goods and services and money between firms and financial institutions

3. In the circular flow model, households are the:

(a) Buyers of goods and services and sellers of factors of production

(b) Buyers of goods and services and buyers of factors of production

(c) Sellers of goods and services and sellers of factors of production

(d) Sellers of goods and services and buyers of factors of production

4. Which of the following represents the flow of money in the circular flow model?

(a) Money flows from households to businesses as payment for goods and services

(b) Money flows from businesses to households as payment for factors of production

(c) Money flows from businesses to the government as taxes

(d) Money flows from households to the government as taxes

5. **In the circular flow model, households receive income through:**
(a) Profits earned from business activities
(b) Government subsidies and transfers
(c) Wages, salaries, and rent for providing factors of production
(d) Interest earned from financial investments

6. **The circular flow model assumes that:**
(a) There is no saving or investment in the economy
(b) The government does not play a role in the economy
(c) There are no leakages or injections in the flow of income
(d) The economy is closed, with no foreign trade

7. **Leakage in the circular flow model refers to:**
(a) Money flowing out of the economy due to imports
(b) Money flowing into the economy due to exports
(c) Savings and taxes that reduce the flow of income
(d) Government spending that increases the flow of income

8. **Injection in the circular flow model refers to:**
(a) Money flowing into the economy due to exports
(b) Money flowing out of the economy due to imports
(c) Government spending and investments that increase the flow of income
(d) Savings and taxes that reduce the flow of income

2.3 - Basic Concepts and Functions

1. **Economics is the study of:**
(a) How to maximize individual profits
(b) How to achieve economic equality among individuals
(c) How societies allocate scarce resources to satisfy unlimited wants
(d) How to control inflation and unemployment in the economy

2. **The basic economic problem arises because:**
(a) Governments are inefficient in resource allocation
(b) Human wants are unlimited, but resources are limited

(c) There is a surplus of goods and services in the market
(d) Consumers' preferences change frequently

3. The concept of opportunity cost refers to:
(a) The monetary cost of an economic decision
(b) The highest-valued alternative that must be given up when a choice is made
(c) The additional cost incurred when producing one more unit of a good
(d) The total cost of production of a firm

4. In economics, the term "demand" refers to:
(a) The quantity of a good or service that producers are willing to supply
(b) The quantity of a good or service that consumers are willing and able to buy at a given price
(c) The price at which producers are willing to sell a good or service
(d) The price at which consumers are willing and able to buy a good or service

5. The law of supply states that:
(a) As the price of a good or service increases, the quantity demanded will increase
(b) As the price of a good or service increases, the quantity supplied will decrease
(c) As the price of a good or service decreases, the quantity demanded will decrease
(d) As the price of a good or service decreases, the quantity supplied will increase

6. Which of the following is a function of money in an economy?
(a) To regulate imports and exports
(b) To control inflation and deflation
(c) To serve as a medium of exchange, unit of account, and store of value
(d) To determine the distribution of income and wealth

7. In a market economy, the allocation of resources is primarily determined by:
(a) The government through central planning
(b) Consumer preferences and market forces of supply and demand
(c) Labor unions and collective bargaining
(d) International trade agreements and treaties

8. **The production possibilities frontier (PPF) represents:**
   (a) The maximum quantity of goods and services that a country can produce using all available resources efficiently
   (b) The minimum level of production a country must achieve to meet its basic needs
   (c) The total output of a country's economy in a given time period
   (d) The income distribution among different income groups in an Economy

2.4 - The Two-sector Model of National Income Determination

1. **In the two-sector model of national income determination, the two main sectors are:**
   (a) Household and government
   (b) Household and business
   (c) Business and government
   (d) Government and foreign trade

2. **The two-sector model simplifies the economy by considering the interactions between:**
   (a) Households and businesses only
   (b) Households and the government only
   (c) Businesses and the government only
   (d) Households and the foreign sector only

3. **In the two-sector model, households are the main:**
   (a) Producers of goods and services
   (b) Consumers of goods and services
   (c) Suppliers of factors of production
   (d) Investors in the economy

4. **The two-sector model assumes that all the income earned by households is either:**
   (a) Spent on consumption or saved
   (b) Spent on consumption or invested
   (c) Spent on imports or exports
   (d) Spent on consumption or taxes

5. **Investment in the two-sector model refers to:**
   (a) The purchase of financial assets by households
   (b) The purchase of physical capital goods by businesses
   (c) The government's spending on infrastructure projects
   (d) The government's spending on social welfare programs

6. **Savings in the two-sector model is equal to:**
(a) Investment (b) Consumption
(c) Income earned by households (d) Government spending

7. **The two-sector model assumes that there is no:**
(a) Government intervention in the economy
(b) Unemployment or inflation
(c) Saving or investment in the economy
(d) International trade or foreign sector interaction

8. **In the two-sector model, the equilibrium condition is achieved when:**
(a) Savings are equal to consumption (b) Investment is equal to consumption
(c) Investment is equal to savings (d) Savings are equal to government spending

2.5 - The Investment Multiplier

1. **The investment multiplier is a concept used in economics to measure:**
(a) The impact of changes in investment on the overall economy
(b) The efficiency of the financial sector in generating profits
(c) The effectiveness of government spending on economic growth
(d) The correlation between inflation and unemployment

2. **The investment multiplier is calculated as the:**
(a) Change in investment divided by the change in national income
(b) Change in national income divided by the change in investment
(c) Change in consumption divided by the change in investment
(d) Change in government spending divided by the change in investment

3. **A higher investment multiplier implies that:**
(a) Changes in investment have a larger impact on the overall economy
(b) Changes in investment have a smaller impact on the overall economy
(c) The economy is in a recessionary phase
(d) The economy is in an inflationary phase

4. **The investment multiplier process works through:**
   (a) Changes in consumer spending due to changes in investment
   (b) Changes in government spending due to changes in investment
   (c) Changes in aggregate demand due to changes in investment
   (d) Changes in aggregate supply due to changes in investment

5. **The value of the investment multiplier is influenced by the:**
   (a) Level of government regulation in the economy
   (b) Level of unemployment in the economy
   (c) Marginal propensity to consume (MPC) and the marginal to save (MPS)
   (d) Exchange rate of the national currency

6. **In an economy with a high investment multiplier, a decrease in investment can lead to:**
   (a) A significant decrease in national income and output
   (b) An increase in consumer spending to compensate for the decrease in investment
   (c) An increase in government spending to compensate for the decrease in investment
   (d) No significant impact on the overall economy

7. **The investment multiplier is a key concept in understanding the impact of:**
   (a) Fiscal policy on economic growth (b) Monetary policy on interest rates
   (c) Foreign trade on exchange rates (d) Supply-side policies on unemployment

8. **The investment multiplier is a theoretical concept that assumes:**
   (a) Investment has a fixed impact on the economy
   (b) The economy is in a constant state of equilibrium
   (c) There are no leakages in the circular flow of income
   (d) All other factors in the economy remain constant

2.6 - Determination of Equilibrium Income: Three Sector Model

1. **In a three-sector model of national income determination, the three main sectors are:**
   (a) Household, government, and foreign trade
   (b) Household, business, and government
   (c) Business, government, and foreign trade
   (d) Household, financial, and foreign trade

2. **The three-sector model expands the two-sector model by incorporating the role of:**
   (a) Government and imports only
   (b) Government and exports only
   (c) Government and both imports and exports
   (d) Foreign trade and exports only

3. **In the three-sector model, government spending includes:**
   (a) Imports and exports of goods and services
   (b) Taxes and transfers to households
   (c) Investments in physical capital by businesses
   (d) Savings and financial investments

4. **Equilibrium income in the three-sector model is achieved when:**
   (a) Aggregate demand is greater than aggregate supply
   (b) Aggregate demand is less than aggregate supply
   (c) Aggregate demand is equal to aggregate supply
   (d) Aggregate demand is equal to consumption

5. **The equilibrium condition in the three-sector model is represented as:**
   (a) Aggregate demand (AD) = Exports (X) + Government spending (G)
   (b) Aggregate demand (AD) = Consumption (C) + Government spending (G) + Savings (S)
   (c) Aggregate demand (AD) = Consumption (C) + Investment (1) + Government spending (G)
   (d) Aggregate demand (AD) = Consumption (C) + Investment (1) + Government spending (G) - Imports (M)

6. In the three-sector model, leakage refers to:

(a) Money flowing into the economy due to exports

(b) Money flowing out of the economy due to imports

(c) Taxes and savings that reduce the flow of income

(d) Government spending that increases the flow of income

7. The injection in the three-sector model refers to:

(a) Money flowing out of the economy due to imports

(b) Money flowing into the economy due to exports

(c) Government spending and investments that increase the flow of income

(d) Savings and taxes that reduce the flow of income

8. In the three-sector model, if aggregate demand exceeds aggregate supply, it leads to:

(a) A surplus in the economy

(b) An increase in government borrowing

(c) Inflationary pressures in the economy

(d) A decrease in national income

2.7 - Determination of Equilibrium Income: Four Sector Model

1. In a four-sector model of national income determination, the four main sectors are:

(a) Household, government, business, and foreign trade

(b) Household, government, business, and financial

(c) Household, government, business, and exports

(d) Business, government, foreign trade, and financial

2. The four-sector model expands the three-sector model by incorporating the role of:

(a) Government and imports only
(b) Government and exports only

(c) Foreign trade and exports only
(d) Financial sector and imports only

3. In the four-sector model, net exports (NX) represent the difference between:

(a) Government spending (G) and taxes (T)
(b) Exports (X) and imports (M)
(c) Savings (S) and investments (1)
(d) Consumption (C) and investment (1)

4. Equilibrium income in the four-sector model is achieved when:

(a) Aggregate demand is greater than aggregate supply
(b) Aggregate demand is less than aggregate supply
(c) Aggregate demand is equal to aggregate supply
(d) Aggregate demand is equal to consumption

5. The equilibrium condition in the four-sector model is represented as:

(a) Aggregate demand (AD) Consumption (C) + Government spending (G) + Savings (S)
(b) Aggregate demand (AD) = Consumption (C) + Investment (1) + Government spending (G) + Net exports (NX)
(c) Aggregate demand (AD) = Consumption (C) + Investment (1) + Government spending (G) - Net exports (NX)
(d) Aggregate demand (AD) = Consumption (C) + Investment (1) + Government spending (G) - Taxes (T)

6. In the four-sector model, the net exports (NX) are negative when:

(a) Imports exceed exports
(b) Exports exceed imports
(c) Government spending exceeds taxes
(d) Savings exceed investments

7. The leakage in the four-sector model refers to:

(a) Money flowing into the economy due to exports
(b) Money flowing out of the economy due to imports
(c) Taxes, savings, and imports that reduce the flow of income
(d) Government spending and investments that increase the flow of income

8. The injection in the four-sector model refers to:

(a) Money flowing out of the economy due to imports
(b) Money flowing into the economy due to exports
(c) Government spending, exports, and investments that increase the flow of income
(d) Taxes, savings, and imports that reduce the flow of income

2.8 - Conclusion

1. **The Keynesian theory emphasizes the role of …………………. in influencing national income.**

(a) Aggregate supply (b) Government policies
(c) Foreign trade (d) Business investments

2. **According to the Keynesian theory, during periods of economic downturns, the government should use ……………………. to stimulate economic growth.**

(a) Monetary policy (b) Supply-side policies
(c) Fiscal policy (d) Trade policies

3. **The concept of "effective demand" in the Keynesian theory highlights the importance of:**

(a) Government spending on infrastructure projects
(b) The total demand for goods and services in the economy
(c) The level of savings and investments in the economy
(d) The role of foreign trade in influencing national income.

4. **The Keynesian theory suggests that if there is insufficient aggregate demand in the economy, the government should:**

(a) Reduce government spending and lower taxes
(b) Increase government spending and lower taxes
(c) Increase interest rates to encourage savings
(d) Decrease interest rates to promote borrowing and investment

5. **In the Keynesian model, full employment equilibrium can only be achieved with:**

(a) An increase in government regulations and control
(b) The proper functioning of the financial sector
(c) The active role of the government in managing aggregate demand
(d) A balanced budget and reduced government intervention

6. **The Keynesian theory gained popularity during the:**

(a) Great Depression of the 1930s (b) Industrial Revolution of the 18th century
(c) Renaissance era in Europe (d) Dot-com bubble of the late 1990s

7. **Keynes argued that in the long run:**
   (a) Government intervention is unnecessary in the economy
   (b) Supply creates its own demand
   (c) The economy will automatically reach full employment
   (d) The impact of government policies on aggregate demand diminishes

8. **The Keynesian theory's focus on aggregate demand and government intervention has had a significant influence on the development of modern:**
   (a) Classical economics (b) Monetarist economics
   (c) Neoclassical economics (d) Macroeconomics

ANSWERS (Unit 2):

2.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	D	5.	B
6.	B	7.	C	8.	A	9.	B	10.	D
11.	D	12.	A	13.	C				

2.2 - Circular Flow in a Simple Two-sector Model

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	B	4.	A	5.	B
6.	A	7.	B	8.	B	9.	A	10.	C
11.	D	12.	C	13.	D				

2.3 Basic Concepts and Functions

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	A	3.	D	4.	A	5.	B
6.	B	7.	C	8.	C	9.	A	10.	A
11.	B	12.	A	13.	B	14.	B		

2.3.1 - Aggregate Demand Function

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	C		

2.3.2 - The Consumption Function

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	B				

2.3.3 - Relationship Between Income and Consumption

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B				

2.3.4 - The Relationship Between Income, Consumption and Saving

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	B				

2.3.5 - Aggregate Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	B				

2.4 - The Two-sector Model of National Income Determination

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	A	4.	C	5.	D
6.	B	7.	A	8.	C	9.	A	10.	D
11.	C	12.	A	13.	B				

2.4.1 - Equilibrium with Unemployment or Inflation

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	B				

2.5 The Investment Multiplier

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	B	4.	C	5.	D
6.	C	7.	A	8.	C	9.	B	10.	B
11.	C	12.	A	13.	D	14.	C	15.	C

2.6 - Determination of Equilibrium Income: Three Sector Model

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	C	4.	B	5.	B
6.	B	7.	B	8.	A	9.	B	10.	C
11.	D	12.	A	13.	C	14.	D		

2.6.1 - The Government Sector and Income Determination

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	A	4.	B		

2.7 - Determination of Equilibrium Income: Four Sector Model

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	D	4.	D	5.	D
6.	A	7.	B	8.	C	9.	D	10.	D

2.8 - Conclusion

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	C	5.	A
6.	B	7.	D	8.	C	9.	C	10.	A

ADDITIONAL QUESTION BANK

2.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	C	4.	A	5.	A
6.	A	7.	C	8.	A				

2.2 - Circular Flow in a Simple Two-sector Model

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	A	4.	A	5.	C
6.	C	7.	C	8.	C				

2.3 Basic Concepts and Functions

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	B	5.	D
6.	C	7.	B	8.	A				

2.4 - The Two-sector Model of National Income Determination

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	B	4.	A	5.	B
6.	A	7.	D	8.	C				

2.5 The Investment Multiplier

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	B	3.	A	4.	C	5.	C
6.	A	7.	A	8.	D				

2.6 - Determination of Equilibrium Income: Three Sector Model

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	C	5.	C
6.	C	7.	C	8.	c				

2.7 - Determination of Equilibrium Income: Four Sector Model

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	B	4.	C	5.	B
6.	A	7.	C	8.	C				

2.8 - Conclusion

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	B	5.	C
6.	A	7.	D	8.	D				

CHAPTER-2

Public Finance

Unit 1: Fiscal Functions: An Overview, Centre And State Finance

1.1 - Introduction

1. **What does fiscal policy refer to?**
   (a) The government's policy on taxation and public expenditure.
   (b) The policy of the central bank to control the money supply.
   (c) The policy of promoting free trade and globalization.
   (d) The policy of regulating foreign direct investment.

2. **What is the primary objective of fiscal policy?**
   (a) Controlling inflation (b) Achieving trace surplus
   (c) Reducing income inequality (d) Stabilizing financial markets

3. **Which level of ·government is responsible for formulating and implementing fiscal policy in a federal system?**
   (a) Local government (b) State government
   (c) Central· government (d) Municipal government

4. **What is the role of the state government in fiscal policy?**
   (a) Implementing monetary policy
   (b) Controlling inflation
   (c) Managing the country's foreign exchange reserves
   (d) Implementing certain tax and expenditure policies within the state

5. Which of the following is an example of an expansionary fiscal policy?
   (a) Increasing taxes to reduce inflation
   (b) Reducing government spending to control budget deficit
   (c) Increasing government spending and cutting taxes to stimulate economic growth
   (d) Implementing austerity measures to address recession

6. **Fiscal functions refer to:**
(a) The functions performed by the central bank to control the money supply.
(b) The functions performed by the government related to taxation, expenditure, and borrowing.
(c) The functions performed by commercial banks to provide credit to the public.
(d) The functions performed by the stock exchange to regulate financial markets.

7. **Fiscal policy is primarily concerned with:**
(a) Controlling the money supply and interest rates in the economy.
(b) Regulating international trade and exchange rates.
(c) Achieving price stability and controlling inflation.
(d) Influencing the level of aggregate demand and economic activity,

8. **The central government's main source of revenue is derived from:**
(a) State taxes and fees.
(b) Central excise duties and customs duties.
(c) Corporate income taxes and personal income taxes.
(d) Borrowing from international financial institutions.

9. **The division of financial powers and responsibilities between the central government and state governments is outlined in:**
(a) The Fiscal Responsibility and Budget Management Act.
(b) The Reserve Bank of India Act.
(c) The Finance Commission's recommendations.
(d) The Securities and Exchange Board of India Act.

10. **A budget deficit occurs when:**
(a) Government revenues exceed government expenditures.
(b) Government expenditures exceed government revenues.
(c) Tax revenues are equal to government expenditures.
(d) The fiscal deficit is equal to the revenue deficit.

1.2 - The Role of Government in an Economic System

1. **In a market economy, the primary role of the government is to:**
   (a) Own and control all the means of production.
   (b) Set prices and allocate resources.
   (c) Provide goods and services directly to consumers.
   (d) Ensure the functioning of markets and enforce property rights.

2. **In a planned economy, the government:**
   (a) Leaves all economic decisions to the private sector.
   (b) Controls all aspects of the economy, including production, distribution, and pricing.
   (c) Promotes international trade and exports.
   (d) Focuses on providing public goods and services only.

3. **The concept of "market failure" refers to:**
   (a) The government's inability to efficiently allocate resources.
   (b) The inability of markets to achieve an equitable distribution of wealth.
   (c) Situations where the market does not efficiently allocate resources to produce goods and services.
   (d) The government's inability to provide public goods and services.

4. **Fiscal policy is a tool used by the government to:**
   (a) Control the money supply and interest rates in the economy.
   (b) Regulate international trade and exchange rates.
   (c) Influence the level of economic activity and stabilize the economy through changes in government spending and taxation.
   (d) Manage the balance of payments and foreign exchange reserves.

5. **Which of the following is an example of a government providing a public good?**
   (a) A private company producing smartphones for sale in the market.
   (b) A government-owned airline company operating international flights.
   (c) A private university offering education services to students.
   (d) A government building a public park for the community.

6. **The primary function of the government in an economic system is to:**
   (a) Maximize profits for businesses.
   (b) Ensure price stability in the market.
   (c) Allocate and manage scarce resources.
   (d) Promote international trade and exports.

7. **In a market economy, the role of the government is mostly:**
   (a) To control all aspects of production and distribution.
   (b) To centralize economic decision-making in the hands of a few authorities.
   (c) To provide goods and services directly to the public.
   (d) To intervene selectively to correct market failures and ensure fair competition.

8. **Fiscal policy refers to the government's actions related to:**
   (a) Controlling the money supply and interest rates.
   (b) Managing taxation and government spending.
   (c) Regulating international trade and exchange rates.
   (d) Setting employment targets and wage rates.

9. **The concept of a "mixed economy" implies that:**
   (a) The government owns and controls all means of production and distribution.
   (b) The economy is entirely market-driven without any government intervention.
   (c) The economy combines elements of both a market economy and a planned economy.
   (d) The government does not have any role in economic decision-making.

10. **An example of a government's microeconomic role is:**
   (a) Implementing monetary policy to control inflation.
   (b) Managing the country's balance of trade and current account.
   (c) Regulating the labor market and setting minimum wages.
   (d) Setting targets for economic growth and GDP expansion.

1.3 - The Allocation Function

1. **The allocation function in economics refers to:**

(a) The government's role in distributing subsidies to various industries.

(b) The process of allocating resources among different uses to satisfy unlimited wants.

(c) The role of financial institutions in allocating credit to the public.

(d) The process of allocating goods and services among different regions of the country.

2. **In a market economy, the allocation of resources is primarily determined by:**

(a) Central planning by the government.

(b) Consumer preferences and demand.

(c) The availability of natural resources.

(d) The level of government spending.

3. **Which economic system relies heavily on central planning and government control to allocate resources?**

(a) Market economy (b) Mixed economy

(c) Planned economy (d) Command economy

4. **The price mechanism in a market economy plays a crucial role in resource allocation because it:**

(a) Determines the level of government spending on public goods.

(b) Regulates international trade and exchange rates.

(c) Adjusts supply and demand to reach equilibrium prices

(d) Allocates resources based on government subsidies.

5. **The concept of opportunity cost is related to the allocation function in economics because it:**

(a) Represents the value of the next best alternative foregone when a choice is made.

(b) Determines the level of government spending mi public goods.

(c) Indicates the monetary cost of production for a firm.

(d) Measures the overall cost of inflation in the economy.

6. **The allocation function in an economic system refers to:**
   (a) How the government allocates its budget for different sectors.
   (b) How resources are distributed among households and firms.
   (c) How the central bank allocates credit to commercial banks.
   (d) How foreign trade is regulated and controlled.

7. **In a command economy, the allocation of resources is mainly decided by:**
   (a) Market forces and competitive forces.
   (b) The interaction of buyers and sellers in the marketplace.
   (c) Government authorities and central planners.
   (d) The balance of trade and foreign exchange rates.

8. **The concept of "opportunity cost" is related to:**
   (a) The cost of producing one additional unit of a good or service.
   (b) The cost of investing in capital goods.
   (c) The cost of producing a good or service at the lowest possible cost.
   (d) The cost of choosing one option over the next best alternative.

9. **Economic efficiency is achieved when:**
   (a) The government intervenes in resource allocation.
   (b) Production is maximized, regardless of the distribution of goods.
   (c) Resources are allocated to produce the highest quality goods.
   (d) Resources are allocated to produce goods in a way that maximizes total welfare.

1.4 - The Redistribution Function

1. **The redistribution function in an economic system refers to:**
   (a) The process of reallocating resources among different sectors of the economy.
   (b) The role of the government in redistributing income and wealth among the population.
   (c) The function of the central bank in regulating the money supply and interest rates.
   (d) The process of reallocating resources between domestic and foreign markets.

2. **Which of the following is an example of a redistributive policy?**
(a) Providing subsidies to domestic industries to boost exports.
(b) Implementing tax cuts to stimulate economic growth.
(c) Introducing progressive income tax rates to tax higher incomes at a higher rate.
(d) Reducing government spending to control budget deficits.

3. **The objective of the redistribution function is to:**
(a) Maximize government revenue from taxation.
(b) Promote economic growth and increase GDP.
(c) Achieve a more equitable distribution of income and wealth.
(d) Encourage international trade and foreign investment.

4. **Social welfare programs, such as unemployment benefits and food assistance, are examples of:**
(a) Regressive policies that benefit higher-income individuals.
(b) Supply-side policies aimed at stimulating production.
(c) Redistributive policies that provide support to those in need.
(d) Demand-side policies that boost consumer spending.

5. **A "means-tested" welfare program refers to a program that:**
(a) Provides- benefits to all individuals regardless of their income level.
(b) Is funded through progressive taxation.
(c) Targets benefits to individuals based on their income or financial need.
(d) Supports specific industries to boost economic growth.

6. **The government's main tool for achieving redistribution is through:**
(a) Fiscal policy, involving taxation and government spending.
(b) Monetary policy, involving controlling the money supply and interest rates.
(c) Exchange rate policies to promote international trade.
(d) Industrial policies to support specific industries.

7. **Which of the following policies is an example of redistribution function?**
   (a) A government policy aimed at promoting economic growth and investment.
   (b) A government policy to control inflation through monetary measures.
   (c) A progressive income tax system where higher-income individuals pay higher tax rates.
   (d) A policy to encourage exports and boost foreign trade.

8. **The objective of the redistribution function is to:**
   (a) Maximize government revenue through taxation.
   (b) Encourage individuals to save and invest more.
   (c) Achieve price stability and control inflation.
   (d) Reduce income and wealth disparities among different segments of society.

9. **Universal basic income (UBI) is an example of:**
   (a) An anti-inflationary measure.
   (b) A regressive tax policy.
   (c) A redistribution policy.
   (d) A trade promotion policy.

1.5 - Stabilization Function

1. **The stabilization function in an economic system refers to:**
   (a) The government's role in stabilizing prices of essential goods and services.
   (b) The process of stabilizing the stock market and financial markets.
   (c) The government's efforts to stabilize the overall economy and counter economic fluctuations.
   (d) The stabilization of exchange rates in international trade.

2. **During periods of high inflation, the government's main focus in terms of stabilization function is usually on:**
   (a) Increasing government spending to boost aggregate demand.
   (b) Implementing contractionary monetary policies to reduce money supply and control inflation.
   (c) Reducing taxes to increase disposable income and boost consumer spending.
   (d) Encouraging foreign trade to improve the trade balance.

3. **In response to an economic recession, the government can use fiscal policy to stimulate the economy by:**
   (a) Decreasing government spending and increasing taxes.
   (b) Decreasing taxes and increasing government spending.
   (c) Increasing interest rates and reducing government spending.
   (d) Decreasing interest rates and reducing government spending.

4. **The primary goal of the stabilization function is to achieve:**
   (a) A balanced budget for the government.
   (b) Maximum economic growth and expansion.
   (c) Full employment and price stability.
   (d) Increased international trade and exports.

5. **Automatic stabilizers in the economy refer to:**
   (a) Government policies that automatically stabilize the stock market during downturns.
   (b) Economic factors that automatically offset economic fluctuations without government intervention.
   (c) Government agencies responsible for regulating prices and wages.
   (d) The stabilization of foreign exchange rates in international trade.

6. **During periods of economic recession, the government can use fiscal policy to:**
   (a) Increase taxes and reduce government spending to boost private investment.
   (b) Increase government spending and reduce taxes to stimulate aggregate demand.
   (c) Implement contractionary monetary policy to control inflation.
   (d) Increase interest rates to encourage savings.

7. **Inflation targeting is an example of:**
   (a) Fiscal policy to stabilize the economy.
   (b) An exchange rate policy to control imports.
   (c) A monetary policy to achieve price stability.
   (d) Industrial policy to support the manufacturing sector.

8. **Automatic stabilizers are government policies or programs that:**
   (a) Automatically increase government spending during economic downturns.
   (b) Automatically reduce taxes during periods of economic growth.
   (c) Require parliamentary approval for implementation.
   (d) Are unrelated to economic conditions and fluctuations.

Additional Question Bank

1.1 - Introduction

1. **Which of the following best defines fiscal functions?**
   (a) The management of public debt. (b) The management of private debt
   (c) The management of monetary policy (d) The management of ·government finances

2. **What is the primary source of revenue for the Central Government in India?**
   (a) State taxes (b) Goods and Services Tax (GST)
   (c) Corporate taxes (d) Sales tax

3. **Which of the following represents a capital receipt for the government?**
   (a) Income tax (b) Goods and Services Tax (GST)
   (c) Borrowings from the World Bank (d) Customs duty

4. **In India, who is responsible for the collection of most direct taxes?**
   (a) State Governments (b) Local Governments (Panchayats)
   (c) Central Board of Direct Taxes (CBDT) (d) Reserve Bank of India (RBI)

5. **Which type of budget shows the receipts and expenditures of both the Central and State Governments?**
   (a) Consolidated Budget (b) Annual Financial Statement
   (c) Deficit Budget (d) Revenue Budget

1.2 - The Role of Government in an Economic System

1. **In a market-oriented economic system, the primary role of the government is to:**
   (a) Own and operate key industries and businesses.
   (b) Regulate and control prices of goods and services.
   (c) Facilitate economic growth and stability while intervening minimally.
   (d) Implement strict trade barriers and tariffs.

2. **Which of the following is an example of a fiscal policy measure undertaken by the government during an economic downturn?**
   (a) Reducing interest rates to encourage borrowing and spending.
   (b) Decreasing the money supply to control inflation.
   (c) Implementing free trade agreements to promote international trade.
   (d) Privatizing stats-owned enterprises to boost competition.

3. **The government's role in providing public goods and services refers to:**
   (a) The distribution of cash transfers to low-income individuals.
   (b) The provision of essential goods and services for the entire population.
   (c) The implementation of tax cuts to stimulate consumer spending.
   (d) The establishment of monopolies in critical industries.

4. **Which economic system involves extensive government planning and control over resources and production?**
   (a) Market economy (b) Mixed economy
   (c) Command economy (d) Traditional economy

5. **During times of inflation, the government might employ which monetary policy measure to reduce the money supply?**
   (a) Quantitative easing (b) Open market operations
   (c) Increasing government spending (d) Lowering reserve requirements for banks

1.3 - The Allocation Function

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1.4 - The Redistribution Function

1. **The redistribution function in economics refers to:**
   (a) The allocation of resources among different sectors of the economy
   (b) The transfer of wealth or income from one group to another
   (c) The process of increasing government spending on social welfare programs
   (d) The implementation of progressive taxation to fund public goods

2. **The primary goal of the redistribution function is to:**
   (a) Maximize profits for businesses
   (b) Promote economic growth and development
   (c) Reduce income inequality and poverty
   (d) Encourage consumer spending and investment

3. **Which of the following is an example of the redistribution function in action?**
   (a) A government investing in infrastructure development
   (b) A government providing subsidies to farmers
   (c) A progressive income tax system
   (d) A central bank controlling the money supply

4. **In a progressive income tax system:**
   (a) The tax rate decreases as income increases
   (b) The tax rate remains constant regardless of income levels
   (c) The tax rate increases as income increases
   (d) There are no taxes imposed on personal income

5. **The redistribution function aims to achieve:**
   (a) Economic efficiency and market equilibrium
   (b) A balanced budget for the government
   (c) An equitable distribution of wealth and income
   (d) Increased consumer spending and investment

6. **Social welfare programs, such as unemployment benefits and food assistance, are examples of:**
(a) Progressive taxation (b) Redistribution of income
(c) Government subsidies to businesses (d) Expansionary fiscal policies

7. **One of the challenges in implementing the redistribution function is:**
(a) Balancing the budget and avoiding deficits
(b) Ensuring that all individuals have equal incomes
(c) Overreliance on government intervention in the economy
(d) Ensuring that the redistribution does not discourage work and productivity

8. **The redistribution function is often a subject of debate due to:**
(a) Its potential impact on economic growth and investment
(b) Its positive impact on reducing inflation and unemployment
(c) The ease of implementing progressive taxation
(d) Its association with increased government spending on public goods

1.5 - Stabilization Function

1. **The stabilization function in economics refers to:**
(a) The government's role in redistributing wealth and income
(b) The process of controlling inflation and unemployment in the Economy
(c) The allocation of resources among different sectors of the economy
(d) The promotion of international trade and exports

2. **The primary goal of the stabilization function is to:**
(a) Maximize profits for businesses
(b) Achieve long-term economic growth and development
(c) Maintain price stability and full employment
(d) Increase government revenue through taxation

3. **Which of the following is an example of the stabilization function in action?**
(a) The government implementing progressive taxation to reduce income inequality
(b) A central bank adjusting Interest rates to control inflation
(c) A government investing in infrastructure development
(d) The implementation of tariffs to protect domestic industries

4. **In the context of the stabilization function, "price stability" refers to:**
   (a) The constant level of prices. for goods and services
   (b) A situation-where prices are increasing moderately over time
   (c) The absence of inflation or deflation in the economy
   (d) A situation where prices are determined by market forces without government intervention

5. **The stabilization function aims to achieve:**
   (a) A balanced budget for the government
   (b) Full employment and stable economic growth
   (c) An equitable distribution of wealth and income
   (d) Increased consumer spending and investment

6. **Monetary policy, such as changes in interest rates and open market operations, is an example of:**
   (a) Fiscal policy to stabilize the economy
   (b) Redistribution of income to reduce poverty
   (c) The stabilization function in action
   (d) Supply-side policies to boost economic growth

7. **One of the challenges in implementing the stabilization function is:**
   (a) Achieving a balance between inflation and unemployment
   (b) Ensuring that all individuals have equal access to economic opportunities
   (c) Overreliance on government intervention in the economy.
   (d) Managing fluctuations in the exchange rate

8. **The stabilization function is often a subject of debate due to:**
   (a) Its potential impact on income distribution and wealth inequality
   (b) The complexity of implementing monetary and fiscal policies
   (c) The conflict between short-term stabilization goals and long-term economic growth
   (d) The association with reduced government spending on public goods

ANSWERS (Unit 1):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	C	4.	D	5.	C
6.	B	7.	D	8.	C	9.	C	10.	B

1.2 – The Role of Government in an Economic System

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	B	3.	C	4.	C	5.	D
6.	C	7.	D	8.	B	9.	C	10.	C

1.3 – The Allocation Function

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	D	4.	C	5.	A
6.	B	7.	C	8.	D	9.	D		

1.4 – The Redistribution Function

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	C	5.	C
6.	A	7.	C	8.	D	9.	C		

1.5 – Stabilization Function

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	C	5.	B
6.	B	7.	C	8.	A				

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	B	3.	C	4.	C	5.	A

1.2 – The Role of Government in an Economic System

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	B	4.	C	5.	b

1.3 – The Allocation Function

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	B	4.	C	5.	B

1.4 – The Redistribution Function

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	C	5.	C
6.	B	7.	D	8.	A				

1.5 – Stabilization Function

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	C	5.	B
6.	C	7.	A	8.	C				

Unit 2: Market Failure / Government Intervention to Correct Market Failure

1.1 - Introduction

1. **Market failure occurs when:**
   (a) The government intervenes in the market to regulate prices.
   (b) Demand for a product exceeds its supply in the market.
   (c) The market fails to allocate resources efficiently.
   (d) The government imposes taxes on goods and services.

2. **Which of the following is an example of market failure?**
   (a) The production of a public good like street lighting.
   (b) The availability of luxury goods in the market.
   (c) The price increase of a product due to high demand.
   (d) The availability of goods and services through competition.

3. **Externalities refer to:**
   (a) The costs and benefits that affect only the producers in the market.
   (b) The costs and benefits that affect both producers and consumers in the market.
   (c) The costs and benefits that affect only the consumers in the market.
   (d) The costs and benefits that have no impact on the market.

4. **When a company pollutes the environment while producing goods, it is an example of:**
   (a) Positive externality (b) Negative externality
   (c) Public good (d) Market equilibrium.

5 **Government intervention to correct market failure may involve:**
   (a) Reducing taxes to encourage investment.
   (b) Providing subsidies to producers to lower costs.
   (c) Imposing price controls to regulate market prices.
   (d) Correcting externalities through taxes or subsidies.

1.2 The Concept of Market Failure

1. **Which of the following is an example of a positive externality?**
   (a) Pollution from a factory affecting nearby residents' health negatively
   (b) A new technology leading to increased productivity in an industry.
   (c) Overfishing in an unregulated fishery.
   (d) A decrease in consumer spending affecting local businesses negatively.

2. **Which of the following is a cause of market failure?**
   (a) Perfect competition in the market.
   (b) Government intervention to correct externalities.
   (c) Absence of public goods in the market.
   (d) Equilibrium between supply and demand.

3. **Externalities refer to:**
   (a) The costs and benefits faced by producers in the market.
   (b) The positive impacts of government policies on the economy.
   (c) The spillover effects of market transactions on third parties.
   (d) The ability of consumers to make informed decisions.

4. **When a company pollutes a nearby river, causing harm to the environment and nearby communities, it is an example of:**
   (a) Positive externality. (b) Negative externality.
   (c) Perfect competition. (d) Government intervention.

5. **How can the government address market failure due to externalities?**
   (a) By increasing taxes on the affected firms.
   (b) By providing subsidies to the affected firms.
   (c) By implementing regulations and standards.
   (d) By reducing public goods in the market.

6. **Market failure occurs when:**
   (a) The government intervenes excessively in the market.
   (b) The market is unable to allocate resources efficiently.
   (c) Producers dominate the market, leading to reduced competition.
   (d) Consumer demand exceeds the available supply of goods.

7. **Which of the following is a cause of market failure?**
   (a) Perfect competition in the market.
   (b) Externalities and public goods.
   (c) Government regulations promoting fair trade.
   (d) Decrease in consumer demand.

8. **In the presence of negative externalities, the market tends to produce:**
   (a) Less of the good than is socially optimal.
   (b) More of the good than is socially optimal.
   (c) The socially optimal level of the good.
   (d) The good in the most efficient manner.

9. **A public good is characterized by:**
   (a) Rivalry in consumption and excludability.
   (b) Non-rivalry in consumption and excludability.
   (c) Rivalry in consumption and non-excludability.
   (d) Non-rivalry in consumption and non-excludability

1.3 - Why do Markets Fall?

1. **Which of the following is an example pf a negative externality?**
   (a) A new technology leading to increased productivity in an industry.
   (b) Pollution from a factory affecting nearby residents' health negatively.
   (c) A decrease in consumer spending affecting local businesses negatively.
   (d) Government subsidies encouraging the production of a specific good.

2. **Which of the following is a reason for market failure?**
   (a) Perfect competition in the market.
   (b) Government regulations promoting fair trade.
   (c) Externalities and public goods.
   (d) Increase in consumer demand.

3. **When a market is characterized by information asymmetry, it means that:**
   (a) Consumers have more information than producers.

(b) Producers have more information than consumers.
(c) Both consumers and producers have equal access to information.
(d) The market is perfectly efficient with no information gaps.

4. **Public goods are non-excludable, which means:**
(a) Individuals can be excluded from using them.
(b) They are available only to the-public sector.
(c) They are available only to low-income individuals.
(d) Individuals cannot be excluded from using them.

5. **Which of the following is a reason why markets fail?**
(a) Perfect competition among firms. (b) Absence of externalities.
(c) Adequate provision of public goods. (d) Information asymmetry.

6. **When external costs are not accounted for in the market price of a good, it leads to:**
(a) Overproduction of the good. (b) Underproduction of the good.
(c) Optimal production of the good. (d) Equilibrium production of the good.

7. **Which of the following is a market failure caused by incomplete information?**
(a) Perfect competition. (b) Monopoly power.
(c) Moral hazard in insurance markets. (d) Efficient allocation of resources.

8. **Public goods are typically underprovided in the market because:**
(a) They are non-excludable.
(b) They are rivalrous in consumption.
(c) The government doesn't regulate their production.
(d) Private firms find them unprofitable.

9. **Monopolies can lead to market failure because:**
(a) They produce goods efficiently at lower prices.
(b) They have a larger market share.
(c) They restrict output and charge higher prices.
(d) They promote competition.

1.3.1 Market Power

1. **What is market power?**
   (a) The ability of a company to set prices arbitrarily high
   (b) The ability of a company to influence market outcomes
   (c) The ability of a company to manipulate consumer preferences
   (d) The ability of a company to engage in predatory pricing

2. **Which of the following is an example of a perfectly competitive market?**
   (a) The market for smartphones with several dominant companies
   (b) The market for agricultural products with many small-scale farmers
   (c) The market for luxury watches with a few high-end brands
   (d) The market for electric vehicles with one leading manufacturer.

3. **A monopoly exists when:**
   (a) There is a single seller, and there are no close substitutes for the product.
   (b) There are a few dominant sellers, and they collude to set prices.
   (c) There are multiple sellers offering identical products.
   (d) The government regulates the prices of goods in the market.

4. **Which of the following is a characteristic of an oligopoly?**
   (a) Large number of sellers in the market
   (b) Identical products offered by all firms
   (c) Little to no barriers to entry for new firms
   (d) Interdependence among the firms in the market

5. **Which of the following strategies is typical of a monopolistic competition?**
   (a) High barriers to entry for new firms
   (b) Identical products offered by all firms
   (c) Heavy reliance on non-price competition
   (d) Price-setting by a central authority

1.3.2 - Externalities

1. **What Is externality?**
   (a) A situation where a company produces goods more efficiently than its competitors
   (b) A cost or benefit that affects a party who did not choose to incur that cost or benefit
   (c) A condition in which the price of a product exceeds its production cost
   (d) An agreement between two firms, to fix prices in the market

2. **Which of the following Is an example of a negative externality?**
   (a) A company providing free health check-ups to its employees
   (b) Planting trees in a neighborhood park
   (c) A factory releasing pollutants into a nearby river
   (d) Offering discounts on products to attract more customers

3. **Which statement best describes a positive externality?**
   (a) An increase in the price of a good leads to a decrease in its demand.
   (b) Subsidizing the, production of solar panels to promote renewable energy.
   (c) The consumption of cigarettes leading to adverse health effects for smokers.
   (d) A decrease in consumer income leads, to a decrease in the consumption of luxury goods.

4. **What is the most effective way to internalize externalities?**
   (a) Government intervention through regulations and taxes
   (b) Imposing price ceilings on goods and services
   (c) Encouraging monopolies to dominate the market
   (d) Allowing markets to reach equilibrium naturally

5. **Which market structure is most likely to neglect externalities?**
   (a) Perfect competition (b) Monopoly
   (c) Oligopoly (d) Monopolistic competition

1.4 - Public Goods

1. **Public goods are characterized by:**
   (a) Rivalry in consumption and excludability
   (b) Non-rivalry in consumption and excludability.
   (c) Rivalry in consumption and non-excludability.
   (d) Non-rivalry in consumption and non-excludability.

2. **Which of the following statements is true about public goods?**
   (a) Public goods can be easily provided by private firms for a profit.
   (b) The free-rider problem is not a concern for public goods.
   (c) Public goods have a competitive market price.
   (d) Public goods are typically provided by the government or public sector.

3. **The free-rider problem associated with public goods refers to:**
   (a) Individuals who benefit from public goods but refuse to pay for them.
   (b) The lack of competition among providers of public goods.
   (c) The government's inability to regulate public goods effectively.
   (d) The high costs of production associated with public goods.

4. **Which of the following is an example of a public good?**
   (a) Private luxury goods like designer handbags.
   (b) Cable television service.
   (c) National defense· and military protection.
   (d) Exclusive membership at a country club.

5. **The concept of "free-rider" in the context of public goods refers to:**
   (a) individuals who benefit from public goods without contributing to their provision.
   (b) Individuals who willingly pay for public goods.
   (c) Public sector employees responsible for providing public goods.
   (d), Non-profit organizations that supply public goods.

6. **The free-rider Problem refers to the situation where:**
   (a) The government provides goods and services without charging any taxes.

(b) Individuals benefit from a public good without contributing to its provision.

(c) Private companies offer goods for free to attract more customers.

(d) The supply of a public good exceeds its demand.

7. **Which of the following is an example of a pure public good?**

(a) Cable TV subscription with different channels

(b) Toll road with limited access.

(c) National defense provided by the government.

(d) Private tutoring service for individual students.

8. **Public good face challenges in the free market because:**

(a) Private firms can charge high prices for them.

(b) They are produced by the government.

(c) They are subject to demand and supply fluctuations.

(d) They may be underprovided due to the free-rider problem.

1.5 - Incomplete Information

1. **Incomplete information in a market refers to:**

(a) The lack of government regulations in the market.

(b) The presence of externalities in the market.

(c) The absence of competition among firms· in the market.

(d) Situations where one party in a transaction has more information than the other.

2. **Moral hazard is an example of incomplete information in:**

(a) Insurance markets. (b) Perfectly competitive markets.

(c) Monopoly markets. (d) Labor markets.

3. **Adverse selection is a situation where:**

(a) Buyers and sellers have equal knowledge about a product.

(b) High-quality goods dominate the market.

(c) Low-quality goods are more likely to be traded.

(d) The market is characterized by perfect competition.

4. **How does incomplete information impact market outcomes?**

(a) It leads to a more efficient allocation of resources.

(b) It results in higher prices for goods and services.

(c) It reduces transaction costs in the market.

(d) It may lead to market failure and suboptimal outcomes.

5. **Solutions to the problem of incomplete information in markets may include:**

(a) Eliminating government regulations.

(b) Encouraging monopolies to dominate the market.

(c) Enhancing transparency and disclosure of information.

(d) Reducing competition among firms.

6. **Incomplete information in the market refers to a situation where:**

(a) Consumers have perfect knowledge about the quality and price of goods.

(b) Sellers have perfect knowledge about consumer preferences.

(c) Market participants have unequal access to information.

(d) The government regulates the flow of information in the market.

7. **Adverse selection in the insurance market refers to:**

(a) Insurance companies charging high. premiums for high-risk individuals.

(b) High-risk individuals selecting insurance policies with high deductibles.

(c) High-risk individuals being more likely to buy insurance.

(d) Insurance companies excluding high-risk individuals from coverage.

8. **Moral hazard in the context of insurance refers to:**

(a) Insurance companies-increasing premiums for risky individuals.

(b) Policyholders taking less risk due to insurance coverage.

(c) Policyholders misrepresenting information to obtain lower premiums.

(d) Insurance companies denying coverage to high-risk individuals.

9. **Which of the following is an example of adverse selection in the used car market?**

(a) Sellers providing detailed information about the car's condition.

(b) Buyers selecting cars based on their preferences.

(c) Sellers selling high-quality cars.at premium prices.

(d) Buyers being unsure about the true condition of the car.

10. **How can markets mitigate the problem of incomplete information?**

(a) By increasing government regulation and control.

(b) By limiting the availability of information to all market participants.

(c) Through transparency and disclosure of relevant information.

(d) By reducing competition among market participants.

1.5.1. Asymmetric Information

1. **What does "asymmetric information" refer to in economics?**

(a) A situation where buyers and sellers have the same level of information

(b) A situation where one party in a transaction has more information than the other

(c) A situation where prices are the same for all. participants in the market

(d) A situation where there is no information available to make decisions

2. **Which of the following is an example of asymmetric information in the used car market?**

(a) All used cars having the same market price

(b) Buyers and sellers having access to the same-car history reports

(c) A seller knowing the true condition of a used car, but the buyer does not

(d) Buyers and sellers negotiating the price of used cars in an open market

3. **What is adverse selection in the context of asymmetric information?**

(a) A situation where sellers selectively disclose information to buyers

(b) A situation where both parties have complete and accurate information

(c) A situation where higher-quality goods are driven out of the market

(d) A situation where the presence of hidden information leads to undesirable outcomes

4. **How can insurance companies address the problem of adverse selection?**

(a) By offering lower premiums to high-risk individuals

(b) By providing more information to policyholders

(c) By avoiding selling insurance to high-risk individuals

(d) By pooling the risks of diverse individuals through underwriting

5. Which concept refers to a situation where the presence of asymmetric information causes the deterioration of the quality of goods or services traded in the market?

(a) Moral hazard (b) Market equilibrium

(c) Gresham's Law (d) Lemons problem

6. What is asymmetric information?

(a) A situation where all parties involved in a transaction have equal access to information.

(b) A situation where. one party in a transaction has more information than the other party.

(c) A situation where both parties in a transaction lack necessary information.

(d) A situation where the market information is not readily available to anyone.

7. In the context of the used car market, what is adverse selection?

(a) The tendency of sellers to hide information about the car's history.

(b) The tendency of buyers to pay more for high-quality used cars.

(c) The tendency of buyers to prefer new cars over used cars.

(d) The tendency of sellers to offer warranties on used cars.

8. Which of the following is an example of moral hazard?

(a) A person investing in a diversified portfolio to reduce risk.

(b) A person purchasing health insurance to cover medical expenses.

(c) A person taking more financial risks after purchasing comprehensive insurance.

(d) A person conducting market research to make an informed purchasing decision.

9. How does adverse selection impact the market for insurance?

(a) It leads to higher insurance premiums for everyone.

(b) It encourages insurance companies to offer more coverage options.

(c) It results in a decrease in demand for insurance products.

(d) It reduces the profitability of insurance companies.

10. **Which of the following is a solution to the problem of adverse selection in insurance markets?**

(a) Implementing price controls on insurance premiums

(b) Requiring individuals to purchase insurance

(c) Offering subsidies to insurance companies

(d) Pooling individuals with different risk levels

1.6 - Government Intervention to Minimize Market Power

1. **Market power refers to:**

(a) The ability of the government to control market prices.

(b) The ability of a single firm to influence market prices and output.

(c) The government's ability to regulate market competition.

(d) The ability of consumers to make informed purchasing decisions.

2. **Which of the following is a consequence of excessive market power?**

(a) Increased competition and lower prices for consumers.

(b) Optimal allocation of resources in the market.

(c) Reduced consumer choices and higher prices.

(d) Elimination of government regulations.

3. **Antitrust laws are designed to:**

(a) Protect firms with dominant market positions from competition.

(b) Encourage collusion among competing firms.

(c) Promote mergers· and acquisitions in the market.

(d) Prevent monopolistic practices and promote competition.

4. **A natural monopoly occurs when:**

(a) A single firm dominates the market due to barriers to entry.

(b) There is perfect competition among multiple firms in the market.

(c) The government owns and operates au industries in the economy.

(d) Market power is evenly distributed among all firms in the industry.

5. **Government intervention to minimize market power can include:**
(a) Imposing price floors to protect producers.
(b) Providing subsidies to encourage higher production.
(c) Breaking up monopolies or regulating their behavior.
(d) Implementing import tariffs to promote domestic industries.

6. **Market power refers to the ability of a firm or a group of firms to:**
(a) Minimize production costs and maximize profits.
(b) Influence market prices and control the quantity of goods produced.
(c) Compete fairly in the market and offer high-quality products.
(d) Participate in international trade and expand their market share.

7. **Which of the following is a potential consequence of excessive market power?**
(a) Increased competition and lower prices for consumers.
(b) Higher quality products and improved customer service.
(c) Limited choices and higher prices for consumers.
(d) Increased innovation and technological advancements.

8. **Government intervention to minimize market power can include:**
(a) Providing subsidies to support monopolistic firms.
(b) Enforcing antitrust laws to promote competition.
(c) Imposing price controls to regulate the market.
(d) Discouraging new firms from entering the market.

9. **A natural monopoly occurs when:**
(a) There is only one firm in the market with significant market power.
(b) The government regulates the prices and operations of all firms.
(c) Multiple firms compete in the market without any dominance.
(d) Economies of scale make it more efficient for one firm to serve the entire market.

10. **How can the government promote competition to minimize market power?**
(a) By granting exclusive rights to firms for certain products.

(b) By providing subsidies to dominant firms to expand their production.

(c) By removing barriers to entry and encouraging new competitors.

(d) By imposing price floors to protect producers from low prices.

1.7 - Government Intervention to Correct Externalities

1. **Externalities in the market refer to:**

(a) The influence of government policies on market outcomes.

(b) The impact of international trade on domestic industries.

(c) The spillover effects of market activities on third parties.

(d) The fluctuations in market prices due to supply and demand.

2. **A negative externality occurs when:**

(a) The production of a good benefits third parties.

(b) The production of a good imposes costs on third parties.

(c) The government imposes taxes on goods and services.

(d) The market is in equilibrium without any distortions.

3. **Which of the following is a government intervention to correct negative externalities?**

(a) Subsidizing the production of goods with negative externalities.

(b) Imposing taxes on goods with negative externalities.

(c) Restricting the production of goods with positive externalities

(d) Providing direct financial support to firms.

4. **Positive externalities occur when:**

(a) The production of a good benefits third parties.

(b) The production of a good imposes costs on third parties.

(c) The government interveries in the market.

(d) There is overproduction of goods in the market

5. **Which of the following is a government intervention to correct positive externalities?**

(a) Subsidizing the production of goods with positive externalities.

(b) Imposing taxes on goods with positive externalities.

(c) Imposing price ceilings on goods with positive externalities.

(d) Removing government regulations on production.

6. **Negative externalities occur when:**

(a) The production of a good leads to higher demand for other goods.

(b) The consumption of a good benefits other individuals in society.

(c) Economic activities impose costs on third parties.

(d) There is an oversupply of goods in the market.

7. **Which of the following is a potential solution for correcting negative externalities?**

(a) Providing subsidies to the firms generating negative externalities.

(b) Implementing price controls to regulate the market.

(c) Enforcing property rights and allowing lawsuits against polluters.

(d) Imposing higher taxes on consumers of the goods with negative externalities.

8. **Positive externalities occur when:**

(a) The production of a good leads to higher prices in the market.

(b) Economic activities benefit third parties without compensation.

(c) There is a surplus of goods in the market.

(d) There is an undersupply of goods in the market.

9. **Which of the following is a government intervention to encourage positive externalities?**

(a) Imposing taxes on the producers of goods with positive externalities.

(b) Providing subsidies to the producers of goods with positive externalities.

(c) Enforcing price ceilings to reduce prices of goods with positive externalities,

(d) Discouraging the consumption of goods with positive externalities.

1.8 - Government intervention in the Case of Merit Goods

1. **Merit goods are goods that:**
   (a) Have high market demand and limited supply.
   (b) Are provided by the government without any cost to consumers.
   (c) Are considered to have positive externalities and are underprovided by the market.
   (d) Are characterized by rivalry in consumption and excludability.

2. **Which of the following is an example of a merit good?**
   (a) Fast food and soft drinks. (b) Private luxury cars.
   (c) Education and vaccinations. (d) High-end fashion products.

3. **Why might merit goods be underprovided by the market?**
   (a) Because they have low demand and high supply.
   (b) Because they are often inferior in quality to other goods.
   (c) Because producers find it unprofitable to supply them.
   (d) Because consumers are not aware of their benefits;

4. **How can the government intervene to ensure adequate provision of merit goods?**
   (a) By imposing price controls to keep prices low.
   (b) By reducing taxes on the production of merit goods.
   (c) By providing subsidies to. producers of merit goods.
   (d) By reducing government expenditure on other sectors.

5. **The purpose of government intervention in the case of merit goods is to:**
   (a) Increase consumer choices in the market
   (b) Maximize government revenue from taxes.
   (c) Correct market failures and ensure social welfare.
   (d) Encourage competition among producers.

6. **Merit goods are goods that:**
   (a) Are produced by government-owned firms.
   (b) Are provided by private firms but subsidized by the government.

(c) Have positive externalities and are underprovided in the free market.

(d) Have negative externalities and are overproduced in the free market.

7. **Which of the following is an example of a merit good?**

(a) Cigarettes and alcoholic beverages. (b) Fast food and sugary beverages.

(c) Education and vaccinations. (d) Luxury cars and high-end fashion.

8. **Government intervention to promote merit goods can include:**

(a) Imposing higher taxes on the consumption of merit goods.

(b) Subsidizing the production of merit goods.

(c) Implementing price controls to regulate the prices of merit goods.

(d) Promoting advertisements for luxury goods.

9. **Why are merit goods often underprovided in the free market?**

(a) Because they are produced by government-owned firms.

(b) Because private firms find them unprofitable to produce.

(c) Because consumers do not value their positive externalities.

(d) Because they are subject to price ceilings.

10. **The government's intervention in the case of merit goods is prim aimed at:**

(a) Restricting the consumption of these goods.

(b) Ensuring equitable distribution of these goods.

(c) Encouraging the consumption of these goods.

(d) Eliminating the production of these goods.

1.9 Government Intervention in. the Case of Demerit Goods

1. **Demerit goods are goods that:**

(a) Have positive externalities and are underprovided in the free market.

(b) Have negative externalities and are overproduced in the free market.

(c) Are produced by government-owned firms.

(d) Are provided by private firms but subsidized by the government.

2. **Which of the following is an example of a demerit good?**
   (a) Education and vaccinations. (b) Fast food and sugary beverages.
   (c) Renewable energy sources. (d) Public transportation services;

3. **Government intervention to discourage the consumption of demerit goods can include:**
   (a) Subsidizing the production of demerit goods.
   (b) Implementing price controls to regulate the prices of demerit goods.
   (c) Enforcing property rights for demerit goods.
   (d) Imposing higher taxes on the consumption of demerit goods.

4. **Why are demerit goods often overproduced in the free market?**
   (a) Because they are produced by government-owned firms.
   (b) Because private firms find them profitable to produce.
   (c) Because consumers fully consider their negative externalities.
   (d) Because they are subject to price floors.

5. **The government's intervention in the case of demerit goods is primarily aimed at:**
   (a) Restricting/the consumption of these goods.
   (b) Ensuring equitable distribution of these goods.
   (c) Encouraging the consumption of these goods.
   (d) Eliminating the production of these goods.

1.10 Government Intervention in the Case of Public Goods

1. **Public goods are characterized by;**
   (a) Excludability and rivalry in consumption.
   (b) Non-excludability and rivalry in consumption.
   (c) Excludability and non-rivalry in consumption.
   (e) Non-excludability and non-rivalry in consumption.

2. **Which of the following is a key challenge in the provision of public goods?**
   (a) Free-rider problem.

(b) Price fluctuations in the market.

(c) Excessive competition among producers.

(d) Lack of demand from consumers.

3. **Government intervention in the provision of public goods can Involve:**

(a) Imposing high taxes on consumers who use public goods.

(b) Restricting access to public goods to a selected group of individuals.

(c) Privatizing the production and distribution of public goods.

(d) Financing the provision of public goods through taxes and government spending.

4. **Which of the following is an example of a public good that is typically provided by the government?**

(a) Movie tickets. (b) Cable TV subscriptions.

(c) National defense. (d) Smartphones.

5. **The concept of "crowding out" refers to:**

(a) The phenomenon where the demand for public goods exceeds the government's ability to provide them.

(b) Government spending on public goods leading to reduced private sector investment.

(c) The government's attempt to exclude certain individuals from accessing public goods.

(d) The competition between private firms in providing public goods.

6. **Why are public goods often underprovided in the free market?**

(a) Because they are produced by government-owned firms.

(b) Because private firms find them unprofitable to produce.

(c) Because consumers are fully aware of their positive externalities.

(d) Because they are subject to price ceilings.

7. **Government intervention to provide public goods can include:**

(a) Imposing taxes on consumers to fund their production.

(b) Subsidizing private firms to produce public goods.

(c) Implementing price controls to regulate the prices of public goods.

(d) Encouraging consumers to purchase public goods.

8. **Which of the following is an example of a public good?**

(a) Education provided by a private school.

(b) Cable TV subscription with different channels.

(c) National defense provided by the government.

(d) Exclusive access to a members only online forum.

9. **How can the government promote the provision of public goods?**

(a) By granting exclusive rights to firms tor certain public goods.

(b) By providing subsidies to private firms to limit public goods production.

(c) By increasing taxes on individuals to reduce public goods consumption.

(d) By directly funding the production of public goods.

1.11 – Price Intervention: Non-Market Pricing

1. **Non-market pricing refers to:**

(a) The setting of prices based on supply and demand in the market.

(b) The government's intervention to control prices in the market,

(c) The use of prices as a mechanism to allocate. resources efficiently.

(d) The setting of prices by the government outside the regular market forces.

2. **Which of the following is an example of non-market pricing?**

(a) A competitive market where prices are determined by supply and demand.

(b) Government controlled price ceilings on rent in certain areas.

(c) Pricing strategy based or product differentiation.

(d) Dynamic pricing used by Online retailers.

3. **What is the primary objective of non-market pricing by the government?**

(a) To maximize profits for private firms;

(b) To encourage competition among producers.

(c) To ensure price stability and affordability for consumers.

(d) To eliminate the role of prices in the economy.

4. **Price floors imposed by the government result in:**
(a) Higher prices and excess supply in the market
(b) Lower prices and excess demand in the market
(c) Higher prices and shortage of goods in the market.
(d) Lower prices and increased competition among producers.

5. **Non-market pricing is often used by the government to:**
(a) Encourage competition and innovation among firms.
(b) Allow market forces to determine prices freely.
(c) Correct market failures and ensure equitable distribution.
(d) Eliminate the role of prices in resource allocation.

6. **Non-market pricing is often used to address:**
(a) Market failures and externalities. (b) Competitive pricing in the market.
(c) Demand and supply fluctuations. (d) Price discrimination by businesses.

7. **What is the primary purpose of non-market pricing?**
(a) To increase profits for businesses.
(b) To promote. competition among firms.
(c) To allocate resources in the most efficient way.
(d) To reduce government control over the economy.

8. **Non-market Pricing may lead to:**
(a) Greater market efficiency and consumer welfare.
(b) Lower production and decreased consumer choices.
(c) Increased competition among firms.
(d) Higher prices due to supply shortages.

1.12 - Government Intervention for Correcting Information Failure

1. **Information failure occurs when:**
(a) The government intervenes in the market to regulate Prices.
(b) Consumers have perfect knowledge about the quality and price et goods.
(c) Market participants have unequal access to information.
(d) There is an oversupply of goods in the market.

2. **Which of the following is a potential consequence of information failure?**
(a) Increased competition and lower prices for consumers.
(b) Higher quality products and improved customer service.
(c) Limited choices and higher prices for consumers.
(d) Increased innovation and technological advancements.

3. **Government intervention to correct information failure can include:**
(a) Imposing price controls to regulate the market.
(b) Limiting the availability of information to all market participants.
(c) Enforcing property rights and allowing lawsuits for misrepresentation.
(d) Providing subsidies to firms with more information.

4. **How can the government promote transparency and reduce information failure?**
(a) By granting exclusive rights to firms for certain products.
(b) By restricting the flow of information to protect businesses.
(c) By enforcing regulations that require firms to disclose relevant information.
(d) By reducing competition among market participants.

5. **Why is correcting information failure important in a market economy?**
(a) To limit government interference in the market.
(b) To protect businesses from competition.
(c) To ensure that markets function efficiently and fairly.
(d) To increase profits for firms.

6. **Which of the following is an example of government intervention to correct information failure?**
(a) Requiring businesses to disclose nutritional information on food labels.
(b) Allowing businesses to keep their product information confidential.
(c) Imposing price ceilings to control inflation.
(d) Allowing businesses to mislead consumers with false advertisements.

7. **The primary goal of government intervention for correcting information failure is to:**
(a) Control the prices of goods and services in the market.
(b) Limit competition and protect businesses.
(c) Ensure a level playing field for all market participants.
(d) Enhance transparency and empower consumers with information.

8. **Which of the following is an example of information failure?**
(a) Consumers conducting thorough research before making a purchase.
(b) Companies providing complete and transparent information about their products:
(c) Misleading advertising that exaggerates the benefits of a product.
(d) Consumers making well-informed decisions based on market prices.

9. **The ultimate goal of government intervention to correct information failure is to:**
(a) Increase government control over market activities.
(b) Regulate market prices to ensure fairness.
(c) Ensure that consumers have access to accurate and relevant information.
(d) Promote competition among businesses.

1.13 - Government Intervention for Equitable Distribution

1. **Equitable distribution refers to:**
(a) Government control over the allocation of resources.
(b) The equal distribution of wealth arid income among individuals.
(c) The concentration of resources among a few wealthy individuals.
(d) Market forces determining the distribution of resources.

2. **Which of the following is. a potential consequence of inequitable distribution of resources?**
(a) Increased competition and economic growth.
(b) Higher levels of poverty and social unrest.
(c) Greater incentives tor innovation and entrepreneurship.
(d) Improved living standards for all individuals.

3. **Government intervention for equitable distribut1on can include:**
   (a) Implementing price controls to regulate resource allocation.
   (b) Promoting competition among firms to increase efficiency.
   (c) Providing social welfare programs to support vulnerable populations.
   (d) Limiting the availability of resources to maintain scarcity.

4. **Which of the following is an example of government intervention for equitable distribution?**
   (a) Imposing higher taxes on high-income individuals.
   (b) Deregulating industries to encourage competition.
   (c) Allowing market forces to determine resources allocation.
   (d) Implementing subsidies to support profitable businesses.

5. **The main objective of government intervention for equitable distribution is to:**
   (a) Maximize profits for businesses.
   (b) Ensure that everyone has equal wealth and income.
   (c) Promote economic growth and development.
   (d) Reduce economic inequalities and provide support to the needy.

6. **Which of the following is a potential consequence of income inequality?**
   (a) Increased economic growth and development
   (b) Reduced poverty and improved living standards for all.
   (c) Social unrest and a sense of injustice in society.
   (d) Greater investment and entrepreneurship.

7. **Government intervention for equitable distribution can include:**
   (a) Imposing taxes on high-income individuals and redistributing the funds.
   (b) Implementing price controls to regulate market prices.
   (c) Encouraging competition among businesses to reduce· income disparities.
   (d) Reducing government spending on social welfare programs.

8. **Which of the following is an example of a government program aimed at equitable distribution?**

(a) Providing subsidies to profitable businesses.

(b) Implementing a flat tax rate for all income levels.

(c) Offering financial assistance to low-income families.

(d) Reducing regulations on corporations:

9. **The main objective of government intervention for equitable distribution is to:**

(a) Maximize government revenue through taxation.

(b) Minimize government control over the economy

(c) Ensure that everyone. receives equal income and wealth.

(d) Reduce income and wealth disparities and promote social welfare.

Additional Question Bank

1.1 - Introduction

1. **Market failure occurs when:**

(a) The government imposes excessive regulations on businesses

(b) The market is unable to allocate resources efficiently

(c) Consumers demand more goods and services than producers can supply ·

(d) There is perfect competition among firms in the market.

2. **The main cause of market failure is often attributed to:**

(a) Excessive government intervention in the economy

(b) Monopoly power held by a single firm in the market

(c) Lack of-consumer demand for certain goods and services

(d) Externalities and the absence of property rights

3. **Externalities refer to:**

(a) The benefits or costs of production that spill over to affect third parties

(b) The government's interference in the market

(c) The changes in demand and supply in the. Market

(d) The fluctuations in the stock market

4. **Which of the following is an example of a positive externality?**
(a) Pollution from a factory affecting the health of nearby residents
(b) Vaccination programs reducing the spread of infectious diseases
(c) Congestion and traffic jams in urban areas
(d) The depletion of natural resources due to overexploitation

5. **Government intervention to correct market failure can include:**
(a) Imposing trade barriers and tariffs on imports
(b) Reducing taxes to stimulate consumer spending,
(c) Providing subsidies to inefficient firm in the market
(d) Imposing taxes or regulations to address externalities

6. **Public goods are characterized by:**
(a) Rivalry in consumption and exclusion of hon-payers
(b) Rivalry in consumption and non-exclusion of non-payers
(c) Non-rivalry in consumption and exclusion of non-payers
(d) Non-rivalry in consumption and non-exclusion of non-payers

7. **The free-rider problem refers to:**
(a) Consumers demanding more goods than producers can supply
(b) Firms in the market charging excessively high prices for their products
(c) People benefiting from a public good without contributing to its provision
(d) Government intervention causing market inefficiencies

8. **Government intervention to correct market failure aims to:**
(a) Completely replace the market mechanism with central planning
(b) Eliminate all externalities and market distortions
(c) Improve market efficiency and promote economic welfare
(d) Privatize all public goods and services

1.2 - The Concept of Market Failure

1. **Market failure occurs when:**
(a) The government intervenes too much in the economy

(b) The market allocates resources efficiently
(c) The market fails to allocate resources efficiently
(d) There is perfect competition among firms in the market

2. **The main cause of market failure is often attributed to:**
(a) Perfect competition among firms in the market
(b) The absence of government regulations
(c) Externalities and market imperfections
(d) High levels of consumer demand

3. **Externalities refer to:**
(a) The government's role in the market
(b) The benefits or costs of production that spill over to affect third parties
(c) The changes in supply and demand in the market
(d) The fluctuations in stock prices

4. **Which of the following is an example of a negative externality?**
(a) A company providing scholarships to local students
(b) The construction of a new park in the neighborhood
(c) Pollution from a factory affecting nearby residents
(d) Government subsidies to support renewable energy

5. **Public goods are characterized by:**
(a) Rivalry in consumption and exclusion of non-payers
(b) Rivalry in consumption and non-exclusion of non-payers
(c) Non-rivalry in consumption and exclusion of non-payers
(d) Non-rivalry in consumption and non-exclusion of non-payers

6. **The free-rider problem refers to:**
(a) Consumers demanding more goods than producers can supply.
(b) Firms in the market charging excessively high prices for their products
(c) People benefiting from a public good without contributing to its provision
(d) Government intervention causing market inefficiencies

7. **Which of the following is an example of market failure?**
   (a) A competitive market with many buyers and sellers
   (b) A perfectly· efficient allocation of resources in a free market·
   (c) Overconsumption of natural resources leading to environmental degradation
   (d) Government subsidies promoting the growth of a specific industry

8. **Government intervention to correct market failure aims to:**
   (a) Eliminate all externalities and market distortions
   (b) Replace the market mechanism with central planning
   (c) Reduce competition and increase market power for firms
   (d) Improve market efficiency and promote economic welfare

1.3 - Why do Markets Fail?

1. **Market failure occurs when:**
   (a) The government intervenes too much in the economy
   (b) The market allocates resources efficiently
   (c) The market fails to allocate resources efficiently
   (d) There is perfect competition among firms in the market

2. **Which of the following is a reason why markets fail?**
   (a) Lack of consumer demand for goods and services
   (b) Excessive government regulations in the market
   (c) High levels of competition among firms
   (d) Efficient allocation of resources by the market

3. **Externalities refer to:**
   (a) The government's role in the market
   (b) The benefits or costs of production that spill over to affect third parties.
   (c) The changes in supply and demand in the market
   (d) The fluctuations in stock prices

4. **Which of the following is an example of a negative externality?**
   (a) A company providing scholarships to local students

(b) The construction of a new park in the neighborhood

(c) Pollution from a factory affecting nearby residents

(d) Government subsidies to support renewable energy

5. **Public goods are characterized by:**

(a) Rivalry in consumption and exclusion of non-payers

(b) Rivalry in consumption and non-exclusion of non-payers

(c) Non-rivalry in consumption and exclusion of non-payers

(d) Non-rivalry in consumption and non-exclusion of non-payers

6. **The free-rider problem refers to:**

(a) Consumers demanding more goods than producers can supply

(b) Firms in the market charging excessively high prices tor their products

(c) People benefiting from a public good without contributing to its provision

(d) Government intervention causing market inefficiencies

7. **Which of the following is a reason for market failure?**

(a) Well-defined property rights and contract enforcement

(b) Perfect information and transparency in the market

(c) Externalities and market imperfections

(d) Equal distribution of income among consumers

8. **Government intervention to correct market failure aims to:**

(a) Eliminate all externalities and market distortions

(b) Replace the market mechanism with central planning

(c) Reduce competition and increase market power for firms

(d) Improve market efficiency and promote economic welfare

1.4 - Public Goods

1. **Public goods are characterized by:**

(a) Rivalry in consumption and exclusion of non-payers

(b) Rivalry in consumption and non-exclusion of non-payers

(c) Non-rivalry in consumption and exclusion of non-payers

(d) Non-rivalry in consumption and non-exclusion of non-payers

2. **Which of the following is a characteristic of a public good?**
   (a) It is produced and. provided by private companies
   (b) It can only be consumed by one person at a time
   (c) Consumers can be excluded from consuming the good
   (d) Consumption by one person does not reduce its availability to others

3. **National defense is an example of a public good because:**
   (a) It is provided by private firms in the market
   (b) It is non-excludable, and consumption by one person does not diminish its availability to others
   (c) It is rivalrous in consumption, and one person's consumption reduces its availability to others
   (d) It can be selectively provided to certain individuals based on their willingness to pay

4. **Which of the following statements is true regarding public goods?**
   (a) Private firms have a strong incentive to produce public goods due to high profits
   (b) Public goods are usually provided by the government to ensure widespread access
   (c) Public goods are always rivalrous in consumption
   (d) Public goods have well-defined property rights for exclusive use

5. **One of the main challenges with public goods is the:**
   (a) High cost of production and provision
   (b) Difficulty in excluding non-payers from consuming the good
   (c) Lack of consumer demand tor such goods
   (d) Rivalry in consumption, leading to scarcity

6. **Free-rider problem refers to the situation where:**
   (a) Consumers demand more goods than producers can supply
   (b) Firms in the market charge excessively high prices for their products
   (c) People benefit from a public good without contributing to its provision
   (d) Government intervention causes market inefficiencies

7. **Which of the following is NOT an example of a public good?**
(a) Street lighting in a city
(b) National defense and military protection
(c) A private toll road with restricted access
(d) Air pollution control to benefit the entire community

8. **The concept of public goods is relevant to:**
(a) Only developed countries with strong governments
(b) Both developed and developing countries
(c) Only developing countries with limited resources
(d) Only countries with a large population

1.5 - Incomplete Information

1. **In economics, incomplete information refers to:**
(a) Situations where consumers have perfect knowledge about the goods and services they purchase
(b) Situations where producers have. perfect knowledge about the costs of production
(c) Situations where there is uncertainty or asymmetry of information between buyers and sellers
(d) Situations where government regulations provide complete information to all market participants

2. **Asymmetric information occurs when:**
(a) Buyers and sellers have equal knowledge about the quality of goods and services
(b) One party in a transaction has more information than the other
(c) Government agencies provide information to all market participants
(d) Market participants have perfect knowledge about market prices

3. **Moral hazard refers to:**
(a) The risk that one party in a transaction will take advantage of the other's lack of information
(b) The risk that market prices will change due to new information becoming available

(c) The risk that a party will deliberately take actions that increase the probability of a negative outcome

(d) The risk that one party will change the terms of a contract after it is agreed upon

4. **Adverse selection occurs when:**

(a) Buyers and sellers have equal knowledge about the quality of goods and services

(b) One party in a transaction has more information about the product's quality than the other

(c) The government· provides complete information to all market participants

(d) Market participants have perfect knowledge about market prices

5. **In the context of insurance markets, adverse selection refers to:**

(a) The tendency for high-risk individuals to seek insurance coverage more than low-risk individuals

(b) The tendency for insurance companies to offer low premiums to attract more customers

(c) The presence of government regulations that ensure complete information for insurance buyers

(d) The equal access to insurance products for all individuals, regardless of their risk profile

6. **Which of the following is an example of adverse selection in the used car market?**

(a) A seller providing complete information about a car's history to potential buyers

(b) A buyer knowing more about a car's hidden defects than the seller

(c) A government agency regulating the prices of used cars

(d) All used cars being sold at the same price regardless of condition

7. **How can market participants mitigate the problem of incomplete information?**

(a) By increasing government regulations and oversight

(b) By sharing more information with each other

(c) By avoiding any form of insurance contracts

(d) By refusing to engage in any transactions

8. The problem of adverse selection is most commonly observed in markets for:

(a) Luxury goods and services

(b) Essential commodities and basic necessities

(c) Used cars and insurance products

(d) Government-subsidized products

1.6 - Government Intervention to Minimize Market Power

1. Market power refers to:

(a) The ability of the government to control market prices

(b) The dominance of a single firm or a group of firms in a market

(c) The efficiency of markets in allocating resources

(d) The absence of government regulations in the market

2. Why is market power a concern for policymakers?

(a) Market power leads to perfect competition and efficient markets

(b) Market power can lead to higher prices and reduced consumer choice

(c) Market power promotes innovation and technological advancements

(d) Market power ensures equitable distribution of wealth in society

3. Government intervention to minimize market power is aimed at:

(a) Promoting monopolistic practices for economic growth

(b) Encouraging firms to merge and create larger entities

(c) Increasing barriers to entry for new firms in the market

(d) Preventing anti-competitive behavior and promoting competition

4. Which of the following is an example of government intervention to minimize market power?

(a) Implementing price controls to regulate market prices

(b) Providing subsidies to dominant firms in the market

(c) Granting exclusive licenses to companies to operate in a specific industry

(d) Enforcing antitrust laws to prevent monopolistic practices

5. **Antitrust laws are designed to:**
   (a) Facilitate mergers and acquisitions between large firms
   (b) Restrict the entry of foreign companies in the domestic market
   (c) Promote fair competition and prevent monopolistic practices
   (d) Allow companies to engage in price-fixing agreements

6. **A merger between two large companies in the same industry may raise concerns about:**
   (a) Increased competition in the market
   (b) Lower prices and better consumer choice
   (c) Potential abuse of market power and reduced competition
   (d) A more efficient allocation of resources

7. **How can the government promote competition and minimize market power?**
   (a) By providing subsidies and incentives to dominant firms
   (b) By imposing price controls to limit price fluctuations
   (c) By enforcing antitrust laws and regulating mergers and acquisitions
   (d) By granting exclusive licenses to companies for specific industries

8. **The primary goal of government intervention to minimize market power is to:**
   (a) Ensure maximum profits for dominant firms in the market
   (b) Restrict consumer choice and options to prevent market inefficiencies
   (c) Promote competition and protect consumers from unfair practices
   (d) Stifle innovation and technological advancements in the market

1.7 - Government Intervention to Correct Externalities

1. **Externalities refer to:**
   (a) The benefits or costs of production that spill over to affect third parties
   (b) The government's intervention in the market to control prices
   (c) The equal distribution of income and wealth in society
   (d) The fluctuations in supply and demand in the market

2. **Negative externalities occur when:**

(a) The government imposes taxes to fund public goods

(b) The costs of production are borne by producers alone

(c) The benefits of production are enjoyed by consumers alone

(d) The costs of production are imposed on third parties not involved in the transaction

3. **Which of the following is an example of a negative externality?**

(a) A company providing scholarships to local students

(b) The construction of a new park in the neighborhood

(c) Pollution from a factory affecting nearby residents

(d) Government subsidies to support renewable energy

4. **To correct negative externalities, the government can use:**

(a) Subsidies to encourage more production of goods with negative externalities

(b) Taxes to discourage the production of goods with negative externalities

(c) Import tariffs to protect domestic industries

(d) Price controls to regulate the prices of goods with negative externalities

5. **Positive externalities occur when:**

(a) The government provides subsidies to firms to promote production

(b) The costs of production are imposed on third parties not involved in the transaction

(c) The benefits of production are enjoyed by producers alone

(d) The benefits of production spill over to benefit third parties not involved in the transaction

6. **Which of the following is an example of a positive externality?**

(a) A company selling a product at a higher price than its competitors

(b) A vaccination program reducing the spread of infectious diseases in a community

(c) A government imposing high tariffs on imported goods

(d) A company causing pollution that affects the health of nearby residents

7. **To correct positive externalities, the government can use:**
(a) Subsidies to discourage the production of goods with positive externalities
(b) Taxes to reduce consumption of goods with positive externalities
(c) Regulations to limit the benefits of production to certain individuals
(d) Subsidies to encourage the production of goods with positive externalities

8. **The main goal of government intervention to correct externalities is to:**
(a) Completely eliminate all externalities from the market
(b) Reduce the efficiency of market transactions
(o) Internalize external costs or benefits to achieve a more optimal outcome
(d) Limit the role of government in economic activities

1.8 - Government Intervention in the Case of Merit Goods

1. **Merit goods are characterized by:**
(a) Being produced. and provided by private companies only
(b) High prices and limited accessibility for all consumers
(c) Having positive externalities and being under-consumed in the market
(d) Being rivalrous in consumption and subject to market failures

2. **Which of the following is an example of a merit good?**
(a) Luxury cars with high price tags
(b) Fast food items with excessive sugar and fat content
(c) Public education and healthcare services
(d) Designer clothing and accessories

3. **Merit goods are typically:**
(a) Overprovided in the market due to high consumer demand
(b) Subject to competitive market forces and price fluctuations
(c) Underprovided in the market due to positive externalities
(d) Provided by private companies with no government involvement

4. **To encourage the consumption of merit goods, the government can:**
(a) Impose taxes to reduce consumption and limit negative externalities

(b) Provide subsidies to consumers to lower the prices of these goods
(c) Deregulate the market to allow for greater competition
(d) Implement price controls to keep the prices stable·

5. **The primary goal of government intervention in the case of merit goods is to:**
(a) Limit consumer choice and promote government-controlled markets
(b) Increase the prices of these goods to generate more government revenue
(c) Ensure that consumers have access to these goods despite their positive externalities
(d) Eliminate the production of merit goods to reduce market inefficiencies

6. **One of the challenges of government intervention in providing merit goods is:**
(a) Overconsumption and excessive demand for these goods
(b) The difficulty in identifying which goods have positive externalities
(c) The lack of interest from private companies to produce merit goods
(d) The need to impose high taxes on consumers to fund the provision of these goods

7. **In the case of merit goods, the government's role is to:**
(a) Completely replace the private sector in providing these goods
(b) Let the market forces determine their prices and availability
(c) Encourage private companies to overproduce these goods for profit
(d) Correct market failures by ensuring adequate provision of these goods

8. **Which of the following is a potential consequence of inadequate provision of merit goods in society?**
(a) Increased consumption of harmful goods with negative externalities
(b) Lower government expenditures and reduced budget deficits
(c) Higher prices of merit goods due to excessive demand
(d) A more efficient allocation of resources in the market

1.9 - Government Intervention in the Case of Demerit Goods

1. **Demerit goods are· characterized by:**
(a) Having positive externalities and being under-consumed in the market

(b) High prices and limited accessibility for all consumers
(c) Having negative externalities and being over-consumed in the market
(d) Being rivalrous in consumption and subject to market failures

2. Which of the following is an example of a demerit good?
(a) Organic fruits and vegetables
(b) Cigarettes and tobacco products
(c) Public education and healthcare services
(d) Renewable energy sources

3. Demerit goods are typically:
(a) Overprovided in the market due to high consumer demand
(b) Subject to competitive market forces and price fluctuations
(c) Underprovided in the market due to negative externalities
(d) Provided by private companies with no government involvement

4. To discourage the consumption of demerit goods, the government can:
(a) Impose taxes to reduce consumption and internalize negative externalities
(b) Provide subsidies to consumers to lower the prices of these goods
(c) Deregulate the market to allow for greater competition
(d) Implement price controls to keep the prices stable

5. The primary goal of government intervention in the case of demerit goods is to:
(a) Limit consumer choice and promote government-controlled markets
(b) Increase the prices of these goods to generate more government revenue
(c) Reduce the consumption of these goods due to their negative externalities
(d) Encourage the production of demerit goods for profit

6. One of the challenges of government intervention in discouraging demerit goods is:
(a) Overconsumption and excessive demand for these goods
(b) The difficulty in identifying which goods have negative externalities
(c) The lack of interest from private companies to produce demerit goods
(d) The need to provide subsidies to consumers to increase consumption

7. **In the case of demerit goods, the government's role is to:**
   (a) Completely replace the. private sector in providing these goods
   (b) Let the market forces determine their prices and availability
   (c) Encourage private companies to overproduce these goods for profit
   (d) Correct market failures by discouraging the consumption of these goods

8. **Which of the following is a potential consequence of excessive consumption of demerit goods in society?**
   (a) Reduced government expenditures and increased budget surplus
   (b) Higher healthcare costs and negative health outcomes
   (c) Lower prices of demerit goods due to excessive demand
   (d) Improved allocation of resources in the market

1.10 - Government intervention in the Case of Public Goods

1. **Public goods are characterized by:**
   (a) Rivalry in consumption and exclusion of non-payers
   (b) Rivalry in consumption and non-exclusion of non-payers
   (c) Non-rivalry in consumption and exclusion of non-payers
   (d) Non-rivalry in consumption and non-exclusion of non-payers

2. **Which of the following is an example of a public good?**
   (a) A private toll road with restricted access
   (b) National defense and military protection
   (c) A company providing exclusive memberships
   (d) Pollution from a factory affecting nearby residents

3. **Public goods are typically:**
   (a) Overprovided in the market due to high consumer demand
   (b) Subject to competitive market forces and price fluctuations
   (c) Underprovided in the market due to free-rider problem
   (d) Provided by private companies. with no government involvement

4. **The free-rider problem refers to:**
(a) Consumers demanding more goods than producers can supply
(b) Firms in the market charging excessively high prices for their products
(c) People benefiting from a public good without contributing to its provision
(d) Government intervention causing market inefficiencies

5. **To ensure the provision of public goods, the government can:**
(a) Impose taxes to fund the production of public goods
(b) Provide subsidies to private firms to produce public goods
(c) Deregulate the market to allow for greater competition
(d) Implement price controls to regulate the. prices of public goods

6. **Which of the following is NOT a characteristic of public goods?**
(a) Non-rivalry in consumption
(b) Non-exclusion of non-payers
(c) Positive externalities associated with consumption
(d) Under-consumption in the market

7. **The primary goal of government intervention in the case of public goods is to:**
(a) Limit consumer choice and control the production of public goods
(b) Increase prices of public goods to generate more government revenue
(c) Ensure the provision of public goods despite free-rider problem
(d) Encourage private companies to produce public goods for profit

8. **Which of the following is a potential consequence of under-provision public goods in society?**
(a) Excessive government spending and budget deficit
(b) Lower taxes and reduced government expenditure
(c) Lack of access to essential services and infrastructure
(d) Inefficient allocation of resources in the market

1.11 - Price Intervention: Non-Market Pricing

1. **Non-market pricing refers to:**
   (a) The pricing mechanism determined by supply and demand forces in a market
   (b) The setting of prices by the government or other authorities outside of the market forces
   (c) The practice of firms colluding to fix prices in a competitive market
   (d) The use of price controls to regulate market prices

2. **Which of the following is an example of non-market pricing?**
   (a) A company setting its product price based on market demand and production costs
   (b) The government capping the price of essential goods to control inflation
   (c) A competitive market where prices are determined solely by supply and demand
   (d) A company engaging in predatory pricing to drive competitors out the market

3. **Price controls are government interventions that:**
   (a) Allow firms to set prices freely to maximize profits
   (b) Restrict the entry of new firms in the market to maintain price stability
   (c) Fix maximum or minimum prices for certain goods and services
   (d) Prohibit firms from engaging in price discrimination

4. **Which of the following is an example of a price ceiling?**
   (a) The government sets a minimum price for agricultural products to support farmers
   (b) A city government caps the rent that landlords can charge for residential properties
   (c) A company raises its product price to increase profit margins
   (d) The government allows free-market forces to determine the price of luxury goods

5. **Price floors are designed to:**
   (a) Prevent price discrimination in the market
   (b) Stabilize prices during periods of high inflation
   (c) Encourage competition among firms to lower prices
   (d) Set a minimum price for certain goods to support producers

6. **The primary purpose of implementing non-market pricing measures like price controls is to:**
   (a) Allow firms to maximize profits by freely setting prices
   (b) Achieve an equitable distribution of income and wealth in society
   (c) Increase government revenue by taxing consumer purchases
   (d) Eliminate all market inefficiencies and imperfections

7. **One-of the potential drawbacks of price controls is:**
   (a) The increased likelihood of price gouging by firms
   (b) The potential for excessive competition and price wars
   (c) The distortion of market signals and reduce9 incentives for producers
   (d) The elimination of all price fluctuations in the market

8. **Non-market pricing measures are often implemented when:**
   (a) The market is experiencing perfect competition and efficient price determination
   (b) There is a need to correct externalities and market failures
   (c) The government seeks to maximize profits for firms
   (d) Consumers demand lower prices for goods and services

1.12 - Government Intervention for Correcting Information Failure

1. **Information failure refers to:**
   (a) The inability of the government to regulate markets effectively
   (b) The situation where the government has access to all relevant information
   (c) The lack of information or asymmetric information in the market
   (d) The government's interference in market pricing mechanisms

2. **Asymmetric information occurs when:**
   (a) The government provides complete information to· all· market participants
   (b) Market participants have equal knowledge about market prices
   (c) One party in a transaction has more information than the other
   (d) Buyers and sellers have equal knowledge about the quality of goods and services

3. **Government intervention to correct information failure can involve:**
   (a) Imposing price controls to regulate market prices
   (b) Providing subsidies to consumers to increase demand for goods
   (c) Encouraging firms to engage in price discrimination
   (d) Implementing regulations. to ensure accurate and transparent information

4. **Which of the following is an example of government intervention to correct information failure?**
   (a) The government setting a maximum price for a particular good
   (b) The implementation of consumer protection laws to prevent deceptive advertising
   (c) The government providing subsidies to a specific industry
   (d) The enforcement of monopolistic practices by the government.

5. **The main goal of government intervention to correct information failure is to:**
   (a) Control market prices to ensure affordability tor consumers
   (b) Limit consumer choice and promote government-controlled markets
   (c) Improve market transparency and protect consumers from fraud
   (d) Increase government revenue by imposing higher taxes on businsses

6. **How can government intervention help correct information failure in financial markets?**
   (a) By increasing taxes on financial transactions
   (b) By-imposing price controls on financial assets
   (c) By requiring companies to disclose accurate financial information
   (d) By limiting consumer access to financial products and services.

7. **One of the 9hallenges of government intervention to correct information failure is:**
   (a) The lack of willingness from firms to provide accurate information
   (b) The potential for excessive competition and price wars
   (c) The difficulty in identifying goods with positive externalities
   (d) The need to eliminate all market inefficiencies

8. **Correcting information failure is essential to:**
(a) Ensure market prices are always at their equilibrium level
(b) Encourage firms to engage in price discrimination
(c) Achieve a more efficient allocation of resources in the market
(d) Allow market forces to completely determine prices and quantities

1.13 - Government Intervention for Equitable Distribution

1. **Equitable distribution refers to:**
(a) The equal distribution of income and wealth among all individuals in society
(b) The distribution. of resources based on merit and individual effort
(c) The concentration of wealth and income in the hands of a few individuals
(d) The government's interference in market pricing mechanisms

2. **Government intervention for equitable distribution can involve:**
(a) Implementing price controls to regulate market prices
(b) Providing subsidies to high-income individuals to· support their lifestyles
(c) Imposing progressive taxation to redistribute wealth from the rich to the poor
(d) Encouraging firms to engage in price discrimination

3. **Which of the following is an example of government intervention for equitable distribution?**
(a) The government imposing a flat tax rate on all income levels
(b) The implementation of consumer protection laws to ensure fair prices for goods
(c) The government providing subsidies to wealthy individuals for luxury goods
(d) The enforcement of monopolistic practices by the government

4. **The main goal of government intervention for equitable distribution is** to:
(a) Control market prices to ensure affordability for consumers
(b) Limit consumer choice and promote government-controlled markets
(c) Achieve a more equal distribution of income and wealth in society
(d) Increase government revenue by imposing higher taxes on businesses

5. **How can progressive taxation help achieve a more equitable distribution of income?**

(a) By taxing low-income individuals at a higher rate than high-income individuals

(b) By taxing high-income individuals at a higher rate than low-income individuals

(c) By imposing a flat tax rate on all income levels

(d) By eliminating taxes on all sources of income

6. **One of the challenges of government intervention for distribution is:**

(a) The potential for excessive competition and price wars

(b) The lack of willingness from individuals to pay taxes for redistribution

(c) The difficulty in identifying goods with positive externalities

(d) The need to eliminate all market inefficiencies

7. **In the context of equitable distribution, what is a means-tested benefit?**

(a) A benefit that is provided to all individuals regardless of their income level

(b) A benefit that is provided based on specific criteria, such as income or assets

(c) A benefit that is only available to high-income individuals

(d) A benefit that is provided without any eligibility requirements

8. **Correcting information failure is essential to:**

(a) Ensure market prices are always at their equilibrium level

(b) Encourage firms to engage in price discrimination

(c) Achieve a more efficient allocation of resources in the market

(d) Allow market forces to completely determine prices and quantities

ANSWERS (Unit 2):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	B	4.	B	5.	d

1.2 – The Concept of Market Failure

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	B	5.	C
6.	B	7.	B	8.	B	9.	D		

1.3 – Why do Markets Fail?

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	D	5.	D
6.	A	7.	C	8.	D	9.	C		

1.3.1 – Market Power

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	A	4.	D	5.	C

1.3.2 – Externalities

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	A	5.	A

1.4 – Public Goods

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	D	3.	A	4.	C	5.	A
6.	B	7.	C	8.	D				

1.5 – Incomplete Information

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	A	3.	C	4.	D	5.	C
6.	C	7.	C	8.	B	9.	D	10.	C

1.5.1 – Asymmetric Information

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	D	4.	D	5.	D
6.	B	7.	A	8.	C	9.	A	10.	D

1.6 – Government Intervention to Minimize Market Power

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	D	4.	A	5.	C
6.	B	7.	C	8.	B	9.	D	10.	C

1.7 – Government Intervention to Correct Externalities

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	A	5.	A
6.	C	7.	C	8.	B	9.	B		

1.8 – Government Intervention in the Case of Merit Goods

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	C	5.	C
6.	C	7.	C	8.	B	9.	B	10.	C

1.9 – Government Intervention in the Case of Demerit Goods

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	D	4.	B	5.	A

1.10 – Government Intervention in the Case of Public Goods

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	A	3.	D	4.	C	5.	B
6.	B	7.	B	8.	C	9.	D		

1.11 – Price Intervention: Non-Market Pricing

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	B	3.	C	4.	C	5.	C
6.	A	7.	C	8.	B				

1.12 – Government Intervention for Correcting Information Failure

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	C	5.	C
6.	A	7.	D	8.	C	9.	C		

1.13 – Government Intervention for Equitable Distribution

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	C	4.	A	5.	D
6.	C	7.	A	8.	C	9.	D		

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	A	4.	B	5.	D
6.	D	7.	C	8.	C				

1.2 – The Concept of Market Failure

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	C	5.	D
6.	C	7.	C	8.	D				

1.3 – Why do Markets Fail?

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	B	4.	C	5.	D
6.	C	7.	C	8.	D				

1.4 – Public Goods

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	D	3.	B	4.	B	5.	B
6.	C	7.	C	8.	B				

1.5 – Incomplete Information

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	C	4.	B	5.	A
6.	B	7.	B	8.	C				

1.6 – Government Intervention to Minimize Market Power

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	D	4.	D	5.	C
6.	C	7.	C	8.	C				

1.7 – Government Intervention to Correct Externalities

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	D	3.	C	4.	B	5.	D
6.	B	7.	D	8.	C				

1.8 – Government Intervention in the Case of Merit Goods

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	B	5.	C
6.	B	7.	D	8.	A				

1.9 – Government Intervention in the Case of Demerit Goods

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	C	4.	A	5.	C
6.	B	7.	D	8.	B				

1.10 – Government Intervention in the Case of Public Goods

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	B	3.	C	4.	C	5.	A
6.	C	7.	C	8.	C				

1.11 – Price Intervention: Non-Market Pricing

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	C	4.	B	5.	D
6.	B	7.	C	8.	B				

1.12 – Government Intervention for Correcting Information Failure

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	D	4.	B	5.	C
6.	C	7.	A	8.	C				

1.13 – Government Intervention for Equitable Distribution

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	A	4.	C	5.	B
6.	B	7.	B	8.	C				

Unit 3: The Process of Budget Making: Sources of Revenue, Expenditure Management and Management of Public Debt

1.1 - Introduction

1. **What is the primary purpose of the government budget?**
   (a) To maximize government revenue through taxes.
   (b) To allocate resources efficiently in the economy.
   (c) To manage public debt and reduce fiscal deficits.
   (d) To outline the government's financial plans and policies for the fiscal year.

2. **Which of the following is considered a source of government revenue?**
   (a) Issuing bonds and borrowing from international lenders.
   (b) Providing subsidies to low-income individuals.
   (c) Investing in infrastructure development
   (d) Collecting taxes from individuals and businesses.

3. **What is revenue expenditure in the government budget?**
   (a) Investment in long-term assets like infrastructure.
   (b) Day-to-day expenses like salaries and subsidies.
   (c) Transferring funds to other levels of government.
   (d) Borrowing money from foreign countries.

4. **How can the government manage public debt effectively?**
   (a) By reducing taxes to increase disposable income.
   (b) By increasing government spending on social programs.
   (c) By ensuring that debt remains sustainable with manageable interest payments.
   (d) By borrowing more to fund large infrastructure projects.

5. **Why is the government budget subject to public debate and scrutiny?**
   (a) To determine the profitability of government projects.
   (b) To assess the performance of government employees.

(c) To evaluate the effectiveness of government policies.

(d) To promote-competition among different government agencies.

6. **Which of the following is NOT a source of government revenue?**

(a) Income tax (b) Sales tax

(c) Government grants to businesses (d) Corporate tax

7. **What is the difference between capital expenditure and revenue expenditure?**

(a) Capital expenditure relates to expenses on public infrastructure, while revenue expenditure relates to interest payments on public debt.

(b) Capital expenditure includes investments in long-term assets, while revenue expenditure includes day-to-day expenses like salaries and subsidies.

(c) Capital expenditure is funded through taxes, while revenue expenditure is funded through borrowing.

(d) Capital expenditure is decided by the central bank, while revenue expenditure is decided by the finance ministry.

8. **Why is effective management of public debt important for the government?**

(a) To maximize government profits.

(b) To reduce government spending.

(c) To ensure sustainable fiscal policy and debt repayment.

(d) To encourage private investment in the economy.

9. **What is the ultimate goal of the budget-making. process?**

(a) To maximize government control over the economy.

(b) To minimize government interference in the market

(c) To achieve economic growth and development.

(d) To promote fairness and social justice in resource distribution.

1.2 - The Process of Budget Making

1. **What is the first step in the process of budget making?**

(a) Setting financial goals and objectives.

(b) Estimating government revenue for the fiscal year.

(c) Allocating funds to various ministries and departments.

(d) Presenting the budget to the public.

2. **Which government agency is responsible for preparing the budget in most countries?**

(a) The central bank.

(b) The finance ministry or treasury department.

(c) The department of taxation.

(d) The ministry of economic planning.

3. **The fiscal year for most governments typically runs from:**

(a) January 1st to December 31st. (b) April 1st to March 31st.

(c) July 1st to June 30th. (d) October 1st to September 30th.

4. **During the budget making process, the estimation of government revenue includes:**

(a) Only tax revenue and non-tax revenue.

(b) Tax revenue, non-tax revenue, and borrowing:

(c) Tax revenue, non-tax revenue, borrowing, and grants.

(d) Only borrowing and grants.

5. **After the budget is prepared by the finance ministry, it is presented to:**

(a) The president or prime minister. (b) The central bank governor.

(c) The parliament or legislature. (d) The ministry of economic planning.

6. **The fiscal year in many countries typically runs from:**

(a) January 1st to December 31st. (b) April 1st to March 31st.

(c) July 1st to June 30th. (d) October 1st to September 30th.

7. **Which government official is responsible for presenting the budget to the parliament or legislature?**

(a) The Prime Minister (b) The Finance Minister

(c) The President (d) The Governor of the Central Bank

8. **The "Budget Speech" usually includes:**
(a) A detailed breakdown of individual taxpayers' contributions.
(b) Economic statistics of the previous fiscal year.
(c) A list of government employees and their salaries.
(d) Policy recommendations from opposition parties.

9. **After the budget Is presented, it is usually sent to:**
(a) The President for approval.
(b) The Supreme Court for review.
(c) The Central Bank for implementation.
(d) The Parliament or Legislature for approval and debate.

1.3 - Sources of Revenue

1. **Which of the following is a direct source of government revenue?**
(a) Sales tax (b) Corporate tax
(c) Excise duty (d) Value Added Tax (VAT)

2. **What is the primary source of revenue for the government in many countries?**
(a) Personal income tax (b) Goods and Services Tax (GST)
(c) Customs duties (d) Corporate tax

3. **Revenue from non-tax sources may include:**
(a) Income tax from individuals.
(b) Sales tax on goods.
(c) Dividends from state-owned enterprises.
(d) Corporate tax from private companies.

4. **Which of the following is an indirect source of government revenue?**
(a) Property tax (b) Goods and Services Tax (GST)
(e) Personal income tax (d) Corporate tax

5. **Revenue from external sources may include:**
(a) Income tax from individuals and corporations.

(b) Sales tax on goods and services.

(c) Foreign aid and grants from other countries.

(d) Dividends from state-owned enterprises.

6. **Which of the following is a direct tax?**

(a) Goods and Services Tax (GST) (b) Corporate Tax

(c) Excise Duty (d) Customs Duty

7. **Which of the following is an indirect tax?**

(a) Income Tax (b) Wealth Tax (c) Sales Tax (d) Property Tax

8. **Which of the following sources of revenue is considered non-tax revenue?**

(a) income Tax

(b) Customs Duty

(c) Dividends from state-owned enterprises

(d) Goods arid Services Tax (GST)

9. **Which of the following taxes is levied on the value added at each stage of production or distribution?**

(a) Income Tax (b) Goods and Services Tax (GST)

(c) Excise Duty (d) Property Tax

10. **Which of the following is an example of an external source of revenue for the government?**

(a) Income Tax (b) Corporate Tax (c) Foreign Aid (d) Sales Tax

1.4 - Public Expenditure Management

1. **What is the main objective of public expenditure management?**

(a) To increase government revenue through taxation.

(b) To maximize government spending on welfare programs.

(c) To ensure efficient allocation of resources for public goods and services.

(d) To reduce government involvement in the economy;

2. **Which of the following is an example of capital expenditure?**
(a) Payment of salaries to government employees.
(b) Investment in building new schools and hospitals.
(c) Subsidies provided to low-income families.
(d) Interest payments on public debt.

3. **What is the difference between revenue expenditure?**
(a) Revenue expenditure relates to Investments in long-term ass while capital expenditure includes day-to-day expenses.
(b) Revenue expenditure includes day-to-day expenses, while capital expenditure relates to interest payments on public debt.
(c) Revenue expenditure is funded through borrowing, while capital expenditure is funded through taxes.
(d) Revenue expenditure is incurred on regular operations, while capital expenditure is incurred on long-term assets.

4. **Which of the following is an example of transfer payments?**
(a) Investment in infrastructure development.
(b) Payment of salaries to government employees.
(c) Subsidies provided to farmers.
(d) Interest payments on public debt.

5. **Why is effective public expenditure management important for the government?**
(a) To reduce government revenue through taxation.
(b) To increase government control over the economy.
(c) To ensure that public funds are used efficiently and effectively.
(d) To minimize government spending on welfare programs. ·

6. **What is public expenditure management?**
(a) The process of managing private sector spending in the economy
(b) The process of allocating and controlling government spending
(c) The process of managing public debt and borrowing
(d) The process of managing foreign aid and grants

7. **Which of the following is not a primary objective of public expenditure management?**
(a) Promoting economic growth and development
(b) Ensuring price stability in the economy
(c) Reducing income inequality and poverty
(d) Maximizing government revenue through taxation

8. **Fiscal policy is closely related to public expenditure management because:**
(a) Fiscal policy determines the level of government spending
(b) Public expenditure management is a part of fiscal policy
(c) Both involve controlling the money supply in the economy
(d) Fiscal policy focuses on regulating private sector spending only

9. **What is the role of budgeting in public expenditure management?**
(a) Budgeting helps the government increase taxes for revenue generation
(b) Budgeting ensures that government spending aligns with its policy priorities
(c) Budgeting allows the government to control private sector investments
(d) Budgeting helps the government manage international trade relations

10. **One of the challenges in public expenditure management is:**
(a) The inability of the government to borrow from international financial institutions
(b) The difficulty in increasing government spending to stimulate economic growth
(c) The lack of transparency and accountability in budget execution
(d) The lack of demand for public goods and services in the economy

11. **What is the role of the legislature in public expenditure management?**
(a) The legislature sets monetary policy to control government spending
(b) The legislature approves the national budget and oversees government spending
(c) The legislature controls the prices of public goods and services
(d) The legislature regulates international trade and tariffs

12. **In public expenditure management, "virement" refers to:**
(a) The process of raising government revenue through taxes

(b) The process of reallocating funds between different budget items
(c) The process of managing foreign aid and grants
(d) The process of controlling inflation through monetary policy

13. **What is the purpose of conducting performance evaluations in public expenditure management?**
(a) To increase government spending on all sectors equally
(b) To determine the effectiveness and efficiency of government programs
(c) To limit public spending to only essential goods and services
(d) To ensure that all public expenditure is focused on defense and security

1.5 - Public Debt Management

1. **What is a budget?**
(a) A financial statement showing the revenue and expenses of a company
(b) The total income of an individual or household
(c) A plan that outlines expected income and expenses over a specific period
(d) The total assets and liabilities of a government

2. **Which of the following budgets is used by businesses to plan and control day-to-day operations?**
(a) Operating budget (b) Gash-budget
(c) Capital budget (d) Flexible budget

3. **A cash budget is essential for managing:**
(a) Long-term investments and capital projects
(b) Short-term cash flow and liquidity
(c) Marketing and advertising expenses
(d) Employee salaries and benefits

4. **Which type of budget is most suitable for capital-intensive projects like building infrastructure?**
(a) Operating budget (c) Capital budget
(b) Cash budget (d) Flexible budget

5. A flexible budget is useful for:

(a) Controlling day-to-day expenses in a business

(b) Allocating funds for specific capital projects

(c) Adapting to changes in sales or production levels

(d) Forecasting long-term revenue and expenses

6. What is a master budget?

(a) A budget prepared by individuals for personal financial planning

(b) The total budget of a government for all its departments and agencies

(c) The comprehensive budget that includes all individual budgets of a company

(d) A budget prepared by businesses for short-term cash management

7. Zero-based budgeting requires:

(a) Using the previous year's budget as a starting point for the new budget

(b) Justifying every budgeted expense as if starting from scratch

(c) Increasing the budget by a fixed percentage every year

(d) Allocating funds based on the popularity of different programs

8. Incremental budgeting involves:

(a) Reducing the budget by a fixed percentage every year

(b) Increasing the budget by a fixed percentage every year

(c) Allocating funds based on the popularity of different programs

(d) Using the previous year's budget as a starting point for the new budget

<u>Capital Receipts</u>

9. Capital receipts refer to:

(a) Money received from selling goods and services

(b) Revenue earned from taxes and fines

(c) Funds raised through long-term borrowing or the sale of assets

(d) Money received from grants and subsidies

10. Which of the following is an example of a capital receipt for a government?

(a) Income tax collected from individuals

(b) Revenue generated from selling government services
(c) Proceeds from selling government-owned land
(d) Grants received from other countries

11. Non-debt capital receipts include:
(a) Borrowings and loans from financial institutions
(b) Revenue generated from taxes and fines
(c) Grants received from other countries
(d) Interest received on government loans

12. Why are capital receipts essential for a government's financial planning?
(a) They help the government generate revenue from taxes
(b) They enable the government to finance day-to-day expenses
(c) They provide funds for development projects and infrastructure
(d) They ensure the government's financial stability during economic downturns

13. Which of the following represents a debt capital receipt for a government?
(a) Revenue earned from government services
(b) Proceeds from the sale of government assets
(c) Borrowing from the central bank
(d) Grants received from international organizations

14. How are capital receipts different from revenue receipts?
(a) Capital receipts are used to finance day-to-day expenses, while revenue receipts are used for long-term projects.
(b) Capital receipts represent funds raised through long-term borrowing or asset sales, while revenue receipts represent funds from regular income sources like taxes and fines.
(c) Capital receipts are non-tax revenue, while revenue receipts are tax revenue.
(d) Capital receipts are received from foreign countries, while revenue receipts are domestic receipts.

15. Government bonds and securities issued to the public represent:

(a) Capital expenditure (c) Revenue expenditure

(b) Capital receipts (d) Revenue receipts

16. How do capital receipts impact the fiscal deficit of a government?

(a) Capital receipts decrease the fiscal deficit

(b) Capital receipts have no impact on the fiscal deficit

(c) Capital receipts increase the fiscal deficit

(d) Capital receipts eliminate the fiscal deficit

Revenue Receipts

17. Revenue receipts refer to:

(a) Funds raised through long-term borrowing or the sale of assets

(b) Money received from selling goods and services

(c) Revenue earned from taxes, fines, and other regular income sources

(d) Grants and aids received from other countries

18. Which of the following is an example of a revenue receipt for a government?

(a) Proceeds from selling government-owned land

(b) Borrowings from financial institutions

(c) Income tax collected from individuals and businesses

(d) Grants received from international organizations

19. Non-tax revenue receipts include:

(a) Income tax collected from individuals and businesses

(b) Borrowings from financial institutions

(c) Grants received from other countries

(d) Revenue generated from government services and fines

20. Why are revenue receipts essential for a government's financial planning?

(a) They provide funds for development projects and infrastructure

(b) They enable the government to finance long-term borrowing

(c) They ensure the government's financial stability during economic downturns

(d) They help the government generate revenue from asset sales

21. Which of the following represents a non-debt revenue receipt for a government?

(a) Proceeds from the sale of government assets

(b) Borrowing from the central bank

(c) Grants received from international organizations

(d) Revenue earned from government services

22. How are revenue receipts different from capital receipts?

(a) Revenue receipts are funds raised through long-term borrowing, while capital receipts represent regular income sources.

(b) Revenue receipts represent funds raised through long-term borrowing or asset sales, while capital receipts represent funds from regular income sources like taxes and fines.

(c) Revenue receipts are used to finance day-to-day expenses, while capital receipts are used for long-term projects.

(d) Revenue receipts are non-tax revenue, while capital receipts are tax revenue.

23. Government revenue earned from import duties and taxes on goods and services represents:

(a) Revenue expenditure (b) Revenue receipts

(c) Capital expenditure (d) Capital receipts

24. How do revenue receipts impact the fiscal deficit of a government?

(a) Revenue receipts decrease the fiscal deficit

(b) Revenue receipts have no impact on the fiscal deficit

(c) Revenue receipts increase the fiscal deficit

(d) Revenue receipts eliminate the fiscal deficit.

Revenue Expenditure

25. Revenue expenditure refers to:

(a) Funds spent on long-term investments and capital projects

(b) Money spent on acquiring assets and properties

(c) Expenditure incurred on day-to-day government operations and services

(d) Expenditure on repaying long-term loans and debts

26. Which of the following is an example of revenue expenditure for a government?

(a) Purchase of land for a new government office building

(b) Payment of interest on a government loan

(c) Construction of a new highway infrastructure

(d) Investment in a state-owned enterprise

27. Revenue expenditure can be classified into:

(a) Capital and non-capital expenditure (b) Debt and equity expenditure

(c) Foreign and domestic expenditure (d) Social and defense expenditure

28. Why is revenue expenditure important fora government's financial planning?

(a) It provides funds for long-term investments and development projects

(b) It helps the government repay long-term loans and debts

(c) It ensures efficient delivery of public services and day-to-day operations

(d) It enables the government to increase tax revenue

29. Which of the following represents a non-capital revenue expenditure for a government?

(a) Investment in building a new government office

(b) Purchase of vehicles for government officials

(c) Payment of salaries to government employees

(d) Investment in a state-owned enterprise

30. How are revenue expenditure and capital expenditure different?

(a) Revenue expenditure is incurred on day-to-day operations, while capital expenditure is incurred on long-term investments and projects.

(b) Revenue expenditure is funded through long-term borrowing, while capital expenditure is funded through regular income sources.

(c) Revenue expenditure is related to asset acquisition, while capital expenditure is related to regular expenses.

(d) Revenue expenditure is non-tax revenue, while capital expenditure is tax revenue.

31. **Government spending on social welfare programs and public education represents:**

(a) Capital expenditure (c) Revenue expenditure
(b) Capital receipts (d) Revenue receipts

32. **How does revenue expenditure impact the fiscal deficit of a government?**

(a) Revenue expenditure decreases the fiscal deficit
(b) Revenue expenditure has no impact on the fiscal deficit
(c) Revenue expenditure increases the fiscal deficit
(d) Revenue expenditure eliminates the fiscal deficit

Capital Expenditure

33. **Capital expenditure refers to:**

(a) Money spent on day-to-day government operations and services
(b) Expenditure incurred on long-term investments and capital projects
(c) Funds received from the sale· of government assets
(d) Expenditure on repaying tong-term loans and debts

34. **Which of the following is an example of capital expenditure for a government?**

(a) Payment of salaries to government employees
(b) Construction of a new government office building
(c) Purchase of office supplies and equipment
(d) Investment in a state-owned enterprise

35. **Capital expenditure can be classified into:**

(a) Capital and non-capital expenditure (b) Debt and equity expenditure
(c) Foreign and domestic expenditure (d) Social and defense expenditure

36. **Why is capital expenditure important for a government's financial planning?**

(a) It provides funds for long-term investments and development projects
(b) It helps g1e government repay long-term loans and debts
(c) It ensures efficient delivery of public services and day-to-day operations
(d) It enables the government to increase tax revenue

37. Which of the following represents a non-capital expenditure for a government?

(a) Investment in building a new government office

(b) Purchase of vehicles for government officials

(c) Payment of salaries to government employees

(d) Investment in a state-owned enterprise

38. How are capital expenditure and revenue expenditure different?

(a) Capital expenditure is incurred on long-term investments and projects, while revenue expenditure is incurred on day-to-day operations.

(b) Capital expenditure is funded through long-term borrowing, while revenue expenditure is funded through regular income sources.

(c) Capital expenditure is related to asset acquisition, while revenue expenditure is related to regular expenses.

(d) Capital expenditure is non-tax revenue, while revenue expenditure is tax revenue.

39. Government spending on defense and military equipment represents:

(a) Capital expenditure (b) Capital receipts

(c) Revenue expenditure (d) Revenue receipts

40. How does capital expenditure impact the fiscal deficit of a government?

(a) Capital expenditure decreases the fiscal deficit

(b) Capital expenditure has no impact on the fiscal deficit

(c) Capital expenditure increases the fiscal deficit

(d) Capital expenditure eliminates the fiscal deficit

Budgetary Deficit or Overall Deficit

41. What is budgetary deficit?

(a) The difference between total revenue and total expenditure of the government

(b) The difference between capital receipts and capital expenditure of the government

(c) The difference between revenue receipts and revenue expenditure of the government

(d) The difference between government savings and investments

42. Budgetary deficit occurs when:

(a) Total revenue is greater than-total expenditure

(b) Capital, receipts are greater than capital expenditure

(c) Total revenue is less than total expenditure

(d) Capital receipts are less than capital expenditure

43. Which of the following is a measure of the overall deficit of a country?

(a) Fiscal deficit (b) Budgetary deficit

(c) Current account deficit (d) Trade deficit

44. Budgetary deficit is also known as:

(a) Revenue deficit (b) Trade deficit

(c) Fiscal deficit (d) Capital deficit

45. Fiscal deficit includes:

(a) Only revenue deficit

(b) Only capital deficit

(c) Both revenue deficit and capital deficit

(d) Neither revenue deficit nor capital deficit

46. How does a budgetary deficit impact the overall financial health of a government?

(a) A budgetary deficit indicates financial stability and fiscal responsibility

(b) A budgetary deficit leads to an increase in government savings

(c) A budgetary deficit indicates that the government is spending more than its revenue

(d) A budgetary deficit has no impact on the overall financial health of a government

47. The formula to calculate budgetary deficit is:

(a) Budgetary Deficit = Total Revenue - Total Expenditure

(b) Budgetary Deficit = Revenue Receipts - Revenue Expenditure

(c) Budgetary Deficit = Capital Receipts - Capital Expenditure

(d) Budgetary Deficit = Fiscal Receipts - Fiscal Expenditure

48. If a government has a budgetary surplus, it means:

(a) Total revenue is less than total expenditure

(b) Total revenue is equal to total expenditure

(c) Total revenue is greater than total expenditure

(d) Total revenue is negative

<u>**Revenue Deficit**</u>

49. What is revenue deficit?

(a) The difference between total revenue and total expenditure of the government

(b) The difference between capital receipts and capital expenditure of the government

(c) The difference between revenue receipts and revenue expenditure of the government

(d) The difference between government savings and investments

50. Revenue deficit occurs when:

(a) Total revenue is greater than total expenditure

(b) Capital receipts are greater than capital expenditure

(c) Total revenue is less than total expenditure

(d) Capital receipts are less than capital expenditure

51. The revenue deficit implies that the government's regular income (revenue) is insufficient to meet its:

(a) Long-term investments (b) Short-term loans

(c) Day-to-day expenses (d) Foreign debt obligations

52. How is revenue deficit different from fiscal deficit?

(a) Revenue deficit considers only revenue receipts and expenditure, while fiscal deficit considers both revenue and capital receipts and expenditure.

(b) Revenue deficit is calculated annually, while fiscal deficit is calculated monthly.

(c) Revenue deficit is the same as fiscal deficit.

(d) Revenue deficit is a type of fiscal deficit.

53. How does revenue deficit impact a government's borrowing?

(a) A revenue deficit reduces the need for government borrowing.

(b) A revenue deficit may lead to increased government borrowing to finance expenses.

(c) A revenue deficit has no impact on government borrowing.

(d) A revenue deficit eliminates the need for government borrowing.

54. The formula to calculate revenue deficit is:

(a) Revenue Deficit = Total Revenue - Total Expenditure

(b) Revenue Deficit = Revenue Receipts - Revenue Expenditure

(c) Revenue Deficit = Capital Receipts - Capital Expenditure

(d) Revenue Deficit = Fiscal Receipts - Fiscal Expenditure

55. If a government has a revenue surplus, it means:

(a) Total revenue is less than total expenditure

(b) Total revenue is equal to total expenditure

(c) Total revenue is greater than total expenditure

(d) Total revenue is negative

56. The revenue deficit primarily arises due to:

(a) Capital investments in infrastructure projects

(b) Repayment of long-term loans and debts

(c) Day-to-day operational expenses and subsidies

(d) Foreign aid and grants received

Fiscal Deficit

57. What is fiscal deficit?

(a) The difference between total revenue and total expenditure of the government

(b) The difference between capital receipts and capital expenditure of the government

(c) The difference between revenue receipts and revenue expenditure of the government

(d) The difference between government savings and investments

58. Fiscal deficit occurs when:

(a) Total revenue is greater than total expenditure

(b) Capital receipts are greater than capital expenditure

(c) Total revenue is less than total expenditure

(d) Capital receipts are less than capital expenditure

59. The fiscal deficit implies that the government is spending more than its:

(a) Long-term-investments (b) Short-term loans

(c) Day-to-day expenses (d) Foreign debt obligations

60. How is fiscal deficit different from revenue deficit?

(a) Fiscal deficit considers only revenue receipts and expenditure, while revenue deficit considers both revenue and capital receipts and expenditure.

(b) Fiscal deficit is calculated annually, while revenue deficit is calculated monthly.

(c) Fiscal deficit is the same as revenue deficit.

(d) Fiscal deficit is a type of revenue deficit.

61. How does fiscal deficit Impact a government's borrowing?

(a) A fiscal deficit reduces the need for government borrowing.

(b) A fiscal deficit may lead to increased government borrowing to finance expenses.

(c) A fiscal deficit has no impact on government borrowing.

(d) A fiscal deficit eliminates the need for government borrowing.

62. The formula to calculate fiscal deficit is:

(a) Fiscal Deficit = Total Revenue -Total Expenditure

(b) Fiscal Deficit = Revenue Receipts - Revenue Expenditure

(c) Fiscal Deficit = Capital Receipts – Capital Expenditure

(d) Fiscal Deficit = Revenue Receipts + Capital Receipts - Revenue Expenditure - Capital Expenditure

63. If a government has a fiscal surplus, it means:

(a) Total revenue is less than total expenditure

(b) Total revenue is equal to total expenditure

(c) Total revenue is greater than total expenditure

(d) Total revenue is negative

64. The fiscal deficit primarily arises due to:

(a) Capital investments in infrastructure projects

(b) Repayment of long-term loans and debts

(c) Day-to-day operational expenses and subsidies

(d) Foreign aid and grants received

<u>**Primary Deficit**</u>

65. What is the primary deficit?

(a) The difference between total revenue and total expenditure of the government

(b) The difference between capital receipts and capital expenditure of the government

(c) The difference between revenue receipts and revenue expenditure of the government

(d) The difference between total revenue and total expenditure excluding interest payments on debt

66. The primary deficit takes into account which of the following items?

(a) Capital receipts and capital expenditure

(b) Revenue receipts and revenue expenditure

(c) Total revenue and total expenditure

(d) Interest payments on debt and government savings

67. How is the primary deficit different from the fiscal deficit?

(a) The primary deficit considers total revenue and total expenditure, while the fiscal deficit considers only revenue receipts and revenue expenditure.

(b) The primary deficit considers both revenue and capital receipts and expenditure, while the fiscal deficit considers only revenue receipts and revenue expenditure.

(c) The primary deficit is the same as the fiscal deficit.

(d) The primary deficit is a type of fiscal deficit.

68. Which of the following is true regarding the primary deficit?

(a) A primary deficit can only occur when total revenue is less than total expenditure.

(b) A primary deficit occurs when total revenue is greater than total expenditure.

(c) A primary deficit is unrelated to the government's borrowing.

(d) A primary deficit is always equal to the fiscal deficit.

69. The formula to calculate the primary deficit is:

(a) Primary Deficit =Total Revenue -Total Expenditure

(b) Primary Deficit = Revenue Receipts - Revenue Expenditure

(c) Primary Deficit = Capital Receipts - Capital Expenditure

(d) Primary Deficit = Fiscal Deficit – Interest Payments on Debt

70. What does a primary deficit imply about a government's finances?

(a) The government is managing its expenses efficiently without reliance on borrowings.

(b) The government is spending more than its total revenue, including interest payments on debt.

(c) The government is generating enough revenue to cover all its expenses, including interest payments on debt.

(d) The government is not engaged in any borrowing activities.

71. If a government has a primary surplus, it means:

(a) Total revenue is less than total expenditure

(b) Total revenue is equal to total expenditure

(c) Total revenue is greater than total expenditure, including interest payments on debt

(d) Total revenue is negative

72. The primary deficit is considered a more appropriate measure of a government's fiscal health because it focuses on:

(a) Long-term investments and capital projects

(b) Day-to-day operational expenses and subsidies

(c) Interest payments on debt

(d) Both revenue and capital receipts and expenditure

<u>Finance Bill</u>

73. What is the Finance Bill?

(a) A bill introduced in the parliament to allocate funds for various government projects

(b) A bill introduced by the Ministry of Finance to propose new tax laws and make amendments to existing ones

(c) A bill introduced to regulate the financial sector and banking activities

(d) A bill introduced to control government expenditure and reduce fiscal deficit

74. The finance bill is presented every year during the presentation of:

(a) The Economic Survey (b) The Union Budget

(c) The Annual Financial Statement (d) The Fiscal Policy Statement

75. Which of the following Is NOT included in the Finance Bill?

(a) Proposals related to direct and indirect taxes

(b) Amendments to the rates of existing taxes

(c) Allocation of funds for various government projects and schemes

(d) Measures to promote economic growth and development

76. the Finance Bill becomes an Act after it is:

(a) Approved by the President of the country

(b) Passed by the Lok Sabha and Rajya Sabha and receives the President's assent

(c) Approved by the Ministry of Finance

(d) Passed by the State Assemblies and receives the Governor's approval

77. The provisions of the Finance Bill come into effect from:

(a) The date of its presentation in the parliament

(b) The beginning of the. next financial year

(c) The date of approval by the Lok Sabha

(d) The date of approval by the Rajya Sabha

78. Who introduces the Finance Bill in the parliament?

(a) The Prime Minister of the country

(b) The Finance Minister of the-country

(c) The President of the country

(d) The Chief Justice of the Supreme Court

79. The Finance Bill is primarily concerned with which aspect of governance?

(a) Defense and security matters

(b) Social welfare and education programs

(c) Economic and financial matters

(d) Environmental protection and conservation

80. The Finance Bill is discussed and debated in which house of parliament?

(a) The Lok Sabha

(b) The Rajya Sabha

(c) Both the Lok Sabha and Rajya Sabha

(d) The State Assemblies

Outcome budget

81. What is the Outcome Budget?

(a) A budget prepared by the Ministry of Finance to allocate funds for various government projects

(b) A budget presented in the parliament that includes proposals related to new taxes and financial matters

(c) A budget that focuses on the outcomes and results achieved by various government schemes and programs

(d) A budget that outlines the government's revenue and expenditure plans for the upcoming financial year

82. The Outcome Budget is presented every year by:

(a) The Ministry of Finance

(b) The Planning Commission

(c) The Ministry of Statistics and Program Implementation

(d) The Prime Minister of India

83. The Outcome Budget assesses the performance of government schemes based on:

(a) The total budget allocated to each scheme

(b) The number of government employees involved in the implementation of each scheme

(c) The outcomes and outputs achieved by each scheme

(d) The popularity of each scheme among the public

84. The primary focus of the Outcome Budget is to:

(a) Evaluate the financial health of the government

(b) Monitor the implementation progress of various government schemes.

(c) Ensure compliance with fiscal responsibility and budget management rules

(d) Assess the impact and effectiveness of government policies and programs

85. The Outcome Budget is aimed at promoting:

(a) Fiscal discipline and reducing government expenditure

(b) Transparency and accountability in government spending

(c) Short-term goals and objectives of the government

(d) Public-private partnerships for effective governance

86. How does the Outcome Budget differ from the Regular Budget?

(a) The Regular Budget focuses on outcomes and results, while the Outcome Budget focuses on budget allocation.

(b) The Regular Budget includes new tax proposals, while the Outcome Budget includes fiscal deficit figures.

(c) The Regular Budget- presents the government's revenue and expenditure plans, while the Outcome, Budget assesses the impact of government schemes.

(d) The Regular Budget is presented by the Prime Minister, while the Outcome Budget is presented by the Finance Minister.

87. The Outcome Budget helps in identifying:

(a) The number of government employees in each department

(b) Areas of duplication in government schemes

(c) The popularity of government schemes among the public

(d) The total funds allocated to each government department

88. The Outcome Budget is presented along with which other budget document?

(a) The Regular Budget (b) The Performance Budget

(c) The Zero-based Budget (d) The Supplementary Budget

Guillotine

89. What is the Guillotine in the context of the parliamentary budget process?

(a) A device used for capital punishment in some countries

(b) A method to close debates and allocate time for discussions during the budget session

(c) A parliamentary committee responsible for reviewing the budget proposals

(d) A tool used by the finance minister to present the budget in the parliament

90. When is the Guillotine typically used in the parliament?

(a) During discussions on non-financial bills

(b) To extend the budget session beyond its scheduled time

(c) To end discussions on budget proposals and related bills

(d) To allow unlimited time for debates on budget matters

91. How does the Guillotine help in the efficient passage of the budget?

(a) It allows for unlimited time for debates on each budget proposal.

(b) It ensures that all non-financial bills are discussed thoroughly.

(c) It allows the finance minister to present the budget efficiently.

(d) It sets a deadline for discussions, thereby streamlining the process.

92. Who decides the allocation of time for discussions using the Guillotine?

(a) The Speaker of the Lok Sabha (b) The Prime Minister

(c) The Finance Minister (d) The President of India

93. What happens when the Guillotine is applied during the budget session?

(a) All budget proposals are automatically approved without any discussions.

(b) Remaining discussions on budget proposals are cut short, and votes are taken collectively.

(c) The budget session is extended to allow for more time for discussions.

(d) The finance minister presents the budget to the President for approval.

94. Which house of parliament uses the Guillotine during the budget session?

(a) Lok Sabha (b) Rajya Sabha

(c) Both Lok Sabha and Rajya Sabha (d) State Legislative Assemblies

95. How does the Guillotine impact the participation of members in budget discussions?

(a) It encourages active participation and thorough discussions on each proposal.

(b) It limits the participation of members and curtails the time for discussions.

(c) It allows members to extend the budget session for more detailed debates.

(d) It has no impact on the participation of members in budget discussions.

Cut Motions

96. What are Cut Motions in the context of parliamentary procedures?

(a) Motions to cut short the duration of parliamentary sessions

(b) Motions to reduce the salaries of government officials

(c) Motions to reduce the amount of a demand for grant presented in the budget

(d) Motions to cut off funding for a specific government project

97. When are Cut Motions moved in the parliament?

(a) During discussions on non-financial bills

(b) Before the presentation of the budget

(c) During discussions on financial matters and demands for grants

(d) After the passage of the budget

98. What is the purpose of a Cut Motion?

(a) To propose a reduction in the total budget allocation

(b) To criticize the functioning of the opposition parties

(c) To express disapproval of a specific policy or expenditure.

(d) To delay the passage of the budget

99. Which of the following statements is true about Cut Motions?

(a) Cut Motions are moved after the budget is passed.

(b) Cut Motions can only be moved by the ruling party MPs.

(c) Cut Motions are meant to propose an increase in budget allocations.

(d) Cut Motions can be moved by any MP to seek a reduction in budget allocations;

100. How many types of Cut Motions are typically allowed in the parliament?

(a) One type (b) Two types (c) Three types (d) Four types

101. Which type of Cut Motion aims at reducing the amount of a demand for grant to Re. 1?

(a) Policy Cut (b) Economy Cut (c) Token Cut (d) Fiscal Cut

102. What is the consequence if a Cut Motion is accepted by the Speaker of the house?

(a) The demand for grant is withdrawn from the budget.

(b) The budget is rejected and needs to be presented again.

(c) The amount of the demand for grant is reduced as proposed in the motion.

(d) The budget is passed without any changes.

103. What is the purpose of allowing Cut Motions in the parliament?

(a) To delay the passage of the budget and stall government activities

(b) To give MPs an opportunity to express their grievances and concerns

(c) To increase the power of the opposition parties

(d) To provide additional time for parliamentary debates

<u>Consolidated Fund of India</u>

104. What is the Consolidated Fund of India?

(a) A fund managed by the Reserve Bank of India for foreign exchange transactions

(b) A fund maintained by the government to finance development projects

(c) A fund that holds all revenues received and loans raised by the government

(d) A fund created to support the defense and security expenses of the country

105. Which article of the Indian Constitution deals with the Consolidated Fund of India?

(a) Article 110 (b) Article 280 (c) Article 266 (d) Article 360

106. All government revenues and receipts are credited to which fund?

(a) Public Account (b) Contingency Fund

(c) Consolidated Fund of India (d) Development Fund

107. The expenditure charged on the Consolidated Fund of India includes:

(a) Expenditure on foreign aid and grants

(b) Expenditure on salaries and allowances of the President and Governors

(c) Expenditure on defense and security.

(d) Expenditure on welfare and social programs

108. How is the money from the Consolidated Fund of India withdrawn?

(a) By the President's order (b) By the Governor's order

(c) By the Finance Minister's order (d) Only through parliamentary approval

109. Which fund is audited by the Comptroller and Auditor General (CAG) of India?

(a) Public Account (b) Contingency Fund

(c) Consolidated Fund of India (d) Development Fund

110. If there is a need for additional funds during an emergency, from which fund can the government draw money?

(a) Public Account (b) Contingency Fund

(c) Consolidated Fund of India (d) Development Fund

111. Which of the following statements about the Consolidated Fund of India is correct?

(a) The President has complete control over the withdrawals from this fund.

(b) All government revenues are credited to this fund, but no expenditure is charged on it.

(c) The fund is maintained by the Reserve Bank of India.

(d) The fund is utilized for all government expenditure, except the expenditure charged on the Contingency-Fund.

<u>Contingency Fund of India</u>

112. What is the Contingency Fund of India?

(a) A fund managed by the Reserve Bank of India for foreign exchange transactions

(b) A fund maintained by the government to finance development projects

(c) A fund that holds all revenues received and loans raised by the government

(d) A fund created to meet urgent and unforeseen expenditure of the government

113. Which article of the Indian Constitution deals with the Contingency Fund of India?

(a) Article 110 (b) Article 266

(c) Article 360 (d) Article 280

114. How is the Contingency Fund of India financed?

(a) By the President from personal funds

(b) By voluntary contributions from the public

(c) By budgetary allocations from the Consolidated Fund of India

(d) By external borrowing from international agencies

115. What is the maximum amount that can be kept in the Contingency Fund of India?

(a) ₹ 10,000 crore (b) ₹ 30,000 crore

(c) ₹ 50,000 crore (d) There is no specified maximum limit.

116. Who has the authority to make withdrawals from the Contingency Fund of India?

(a) The President of India (b) The Prime Minister of India

(c) The Finance Minister of India (d) The Reserve Bank of India

117. How are withdrawals from the Contingency Fund of India made?

(a) By the President's order (b) By the Prime Minister's order

(c) By the Finance Minister's order (d) By the Reserve Bank of India's approval

118. What happens if the amount in the Contingency Fund of India is insufficient to meet the expenditure?

(a) The government can draw additional funds from the Consolidated Fund of India.

(b) The government can borrow from international financial institutions.

(c) The expenditure remains pending until the parliament approves additional funds.

(d) The President can use personal funds to cover the shortfall.

119. The Contingency Fund of India is audited by:

(a) The President of India

(b) The Comptroller and Auditor General (CAG) of India

(c) The Finance Minister of India

(d) The Reserve Bank of India

<u>Public Account</u>

120. What is the Public Account of India?

(a) A fund managed by the Reserve Bank of India for foreign exchange transactions

(b) A fund maintained by the government to finance development projects

(c) A fund that holds all revenues received and loans raised by the government

(d) A fund that accounts for money received by the government other than those classified under the Consolidated Fund of India

121. Which article of the Indian Constitution deals with the Public Account of India?

(a) Article 266 (c) Article 360 (b) Article 110 (d) Article 280

122. Which of the following receipts is credited to the Public Account of India?

(a) Revenue from income tax

(b) Revenue from customs duty

(c) Proceeds from disinvestment of public sector enterprises

(d) Proceeds from loans raised by the government

123. How are withdrawals from the Public Account of India made?

(a) By the President's order

(b) By the Prime Minister's order

(c) By the Finance Minister's order

(d) Only through parliamentary approval

124. Which of the following is NOT a part of the Public Account of India?

(a) Provident Fund
(b) Small Savings Funds
(c) Investment in public sector companies
(d) National Investment Fund

125. The Public Account of India is administered by:

(a) The President of India
(b) The Reserve Bank of India
(c) The Finance Minister of India
(d) The Comptroller and Auditor General (CAG) of India

126. What is the primary purpose of the Public Account of India?

(a) To finance government development projects
(b) To hold revenues for the welfare of government employees
(c) To account for receipts and disbursements of public money
(d) To provide funds for emergency situations

127. The surplus amount in the Public Account of India is usually utilized for:

(a) Financing the defense and security expenses of the country
(b) Meeting the fiscal deficit of the government
(c) Financing various welfare and social programs
(d) Repayment of loans raised by the government

Additional Question Bank

1.1 - Introduction

1. What is the process of budget making?

(a) Planning, execution, evaluation
(b) Revenue generation, expenditure management, debt management
(c) Budget proposal, legislative approval, implementation
(d) Financial forecasting, revenue estimation, expenditure estimation

2. Which of the following is a source of revenue for the government?

(a) Expenditure on public services
(b) Public debt
(c) Taxes
(d) Budget deficit

3. **Which aspect of budgeting involves controlling and optimizing government spending?**
(a) Expenditure management (b) Debt management
(c) Revenue generation (d) Budget forecasting

4. **What does the management of public debt refer to?**
(a) Generating revenue through borrowing
(b) Allocating funds for public projects
(c) Controlling government expenses
(d) Managing loans and liabilities of the government

5. **Which of the following is a part of the budget process that involves estimating the expected income and expenses for the upcoming period?**
(a) Budget approval (b) Budget implementation
(c) Budget forecasting (d) Budget evaluation

1.2 - The Process of Budget Making

1. **Which stage of the budget-making process involves analyzing the past performance, current economic conditions, and future projections?**
(a) Budget execution (c) Budget formulation
(b) Budget evaluation (d) Budget authorization

2. **What is the primary purpose of the budget-making process?**
(a) Increasing government debt (b) Controlling inflation
(c) Allocating resources effectively (d) Reducing taxes

3. **During which stage of the budget process is public input and feedback typically considered?**
(a) Budget authorization (c) Budget formulation
(b) Budget execution (d) Budget evaluation

4. **Which government entity is responsible for approving and authorizing the final budget?**
(a) Central bank (b) Parliament/Congress
(c) Ministry of Finance (d) International Monetary Fund (IMF)

5. **Which aspect of the budget-making process involves implementing the budgetary plans and disbursing funds?**
   (a) Budget execution (b) Budget forecasting
   (c) Budget evaluation (d) Budget authorization

1.3 - Sources of Revenue

1. **Which of the following is an example of a direct source of government revenue?**
   (a) Corporate income tax (b) Inflation tax
   (c) Sales tax (d) Property tax

2. **What type of revenue is generated from government-owned assets or businesses?**
   (a) Indirect taxes (b) Grants (c) User fees (d) Non-tax revenue

3. **Which tax is typically levied on the value of goods and services at each stage of production and distribution?**
   (a) Income tax (b) Excise tax
   (c) Value Added Tax (VAT) (d) Property tax

4. **What is the main source of revenue for the government in a country with a predominantly agricultural economy?**
   (a) Corporate income tax (b) Personal income tax
   (c) Export duties (d) Sales tax

5. **Which revenue source involves funds provided by foreign governments or international organizations to support specific projects or programs?**
   (a) Corporate tax (b) Grants (c) Excise tax (d) Tariffs

1.4 - Public Expenditure Management

1. **What is the primary goal of public expenditure management?**
   (a) Maximizing government revenue (b) Minimizing budget deficit
   (c) Efficient allocation of resources (d) Reducing inflation

2. **Which aspect of public expenditure management involves setting clear objectives and priorities for government spending?**
(a) Budget forecasting (b) Budget execution
(c) Budget formulation (d) Budget evaluation

3. **What does the term "Virement" mean in public expenditure management?**
(a) The transfer of funds from one budget head to another
(b) The allocation of funds for a specific project
(c) The evaluation of budget performance
(d) The approval of the final budget by the parliament

4. **Which mechanism is used in public expenditure management to control spending when actual revenues are lower than expected?**
(a) Debt management (b) Budget deficit
(c) Austerity measures (d) Inflation targeting

5. **What is the purpose of conducting mid-year budget reviews in public expenditure management?**
(a) To evaluate the performance of government agencies
(b) To identify potential cost-saving measures
(c) To assess the impact of inflation on the budget
(d) To adjust the budget based on changing economic conditions

1.5 - Public Debt Management

1. **What is public debt?**
(a) The total debt owed by individuals to the government
(b) The total debt owed by the government to individuals and foreign entities
(c) The debt owed by corporations to the government
(d) The debt owed by the government to the central bank

2. **Which of the following is a common instrument used by governments to borrow money from the public?**
(a) Corporate bonds (b) Treasury bills
(c) Stocks (d) Mortgage-backed securities

3. **How does a government use bond issuance as a debt management strategy?**

(a) To increase inflation (b) To raise funds for specific public projects

(c) To reduce interest rates (d) To decrease the money supply

4. **What is the role of a debt-to-GDP ratio in public debt management?**

(a) It determines the interest rate on government bonds.

(b) It indicates the total amount of government revenue generated from debt.

(c) It assesses the government's ability to repay its debt relative to its economic output.

(d) It determines the maturity period of government debt instruments.

5. **How does a government utilize debt restructuring as a debt management measure?**

(a) To reduce the national debt to zero

(b) To extend the repayment period of existing debt

(c) To borrow from international organizations

(d) To increase interest rates on outstanding debt

ANSWERS (Unit 3):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	D	3.	B	4.	C	5.	C
6.	C	7.	B	8.	C	9.	D		

1.2 – The Process of Budget Making

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	B	3.	B	4.	C	5.	C
6.	B	7.	B	8.	B	9.	D		

1.3 – Sources of Revenue

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	C	4.	B	5.	C
6.	B	7.	C	8.	C	9.	B	10.	C

1.4 – Public Expenditure Management

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	D	4.	C	5.	C
6.	B	7.	D	8.	A	9.	B	10.	C
11.	B	12.	B	13.	B				

1.5 – Public Debt Management

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

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
71.	C	72.	B	73.	B	74.	B	75.	C
76.	B	77.	B	78.	B	79.	C	80.	C
81.	C	82.	C	83.	C	84.	D	85.	B
86.	C	87.	B	88.	B	89.	B	90.	C
91.	D	92.	A	93.	B	94.	C	95.	B
96.	C	97.	C	98.	C	99.	D	100.	C
101.	C	102.	C	103.	B	104.	C	105.	C
106.	C	107.	B	108.	D	109.	C	110.	B
111.	D	112.	D	113.	C	114.	C	115.	D
116.	A	117.	A	118.	A	119.	B	120.	D
121.	A	122.	C	123.	A	124.	C	125.	C
126.	C	127.	C						

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	A	4.	D	5.	C

1.2 – The Process of Budget Making

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	B	5.	A

1.3 – Sources of Revenue

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	D	3.	C	4.	C	5.	B

1.4 – Public Expenditure Management

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	A	5.	C
6.	D								

1.5 – Public Debt Management

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	B	4.	C	5.	B

Unit 4: Fiscal Policy

1.1 - Introduction

1. **What is Fiscal Policy?**
   (a) A policy that regulates the flow of foreign exchange in the economy
   (b) A policy that controls the circulation of currency notes and coins
   (c) A policy that deals with government's taxation and spending decisions to influence the economy
   (d) A policy that regulates the interest rates in the financial market

2. **The main objectives of Fiscal Policy include:**
   (a) Controlling inflation and reducing the fiscal deficit
   (b) Regulating the foreign exchange rate and promoting exports
   (c) Maintaining price stability and ensuring balanced economic growth
   (d) Controlling the money supply and stabilizing the financial market

3. **Fiscal Policy can be classified into two types:**
   (a) Monetary Policy and Exchange Rate Policy
   (b) Expansionary Fiscal Policy and Contractionary Fiscal Policy
   (c) Microeconomic Policy and Macroeconomic Policy
   (d) Trade Policy and Investment Policy

4. **When does the government use an Expansionary Fiscal Policy?**
   (a) During periods of high inflation and overheating in the economy
   (b) During periods of recession and high unemployment
   (c) During periods of trade deficits and depreciation of the currency
   (d) During periods of budget surplus and surplus revenue

5. **What is the primary tool used by the government in implementing Fiscal Policy?**
   (a) Printing of currency notes and coins
   (b) Setting interest rates in the banking sector
   (c) Regulation of foreign trade and exports
   (d) Government spending and taxation decisions

6. **How does Contractionary Fiscal Policy aim to control inflation?**
   (a) By reducing the money supply in the economy
   (b) By increasing government spending on infrastructure projects
   (c) By reducing interest rates to boost investment and consumption
   (d) By reducing government spending and increasing taxes

7. **Fiscal Policy operates through its impact on:**
   (a) Monetary policy and exchange rates
   (b) Interest rates and credit availability
   (c) Government administration and bureaucracy
   (d) Fiscal deficits and trade imbalances

8. **What are the limitations of Fiscal Policy?**
   (a) Limited government control over taxation and public spending
   (b) The inability to influence the money supply and interest rates
   (c) Time lags in the implementation of fiscal measures and their impact
   (d) The-lack of coordination between fiscal and monetary policies

1.2 - Objectives of Fiscal Policy

1. **What are the primary objectives of Fiscal Policy?**
   (a) Regulating the money supply and controlling inflation
   (b) Promoting exports and reducing trade deficits
   (c) Managing government spending and reducing the fiscal deficit
   (d) Maintaining price stability and ensuring balanced economic growth

2. **How does Fiscal Policy contribute to economic stability?**
   (a) By directly controlling interest rates and money supply
   (b) By influencing the level of aggregate demand and economic activity
   (c) By regulating foreign exchange rates and trade balances
   (d) By promoting savings and investments in the economy

3. **During periods of recession and high unemployment, Fiscal Policy aims to:**
   (a) Increase government spending and reduce taxes

(b) Reduce government spending and increase taxes
(c) Control inflation and cool down the economy
(d) Reduce interest rates and boost private investment

4. How does Fiscal Policy help in controlling inflation?
(a) By directly controlling interest rates and money supply
(b) By reducing government spending and increasing taxes
(c) By promoting exports and reducing trade deficits
(d) By encouraging private investment through tax incentives

5. What is the relationship between Fiscal Policy and economic growth?
(a) Fiscal Policy has no impact on economic growth.
(b) Expansionary Fiscal Policy leads to economic growth.
(c) Contractionary Fiscal Policy leads to economic growth.
(d) Fiscal Policy only affects the distribution of income.

6. Fiscal Policy can be used to address which of the following challenges?
(a) Political instability and corruption.
(b) Technological advancements and automation
(c) Income inequality and poverty
(d) Exchange rate fluctuations and balance of payments

7. How does Fiscal Policy influence private sector investment?
(a) By directly controlling interest rates in the financial market
(b) By providing subsidies and incentives to private companies
(c) By regulating foreign direct investment (FDI) and
(d) By altering the overall level of economic activity and confidence in the economy

8. What is the major challenge in implementing Fiscal Policy effectively?
(a) Coordinating fiscal measures with monetary policy
(b) Limitations in government control over taxation and
(c) Uncertainties in the global economic environment
(d) Lack of skilled labor and technological advancements

1.3 - Types of Fiscal Policy

1. **What are the two main types of Fiscal Policy?**
   (a) Monetary Fiscal Policy and Exchange Rate Fiscal Policy
   (b) Expansionary Fiscal Policy and Contractionary Fiscal Policy
   (c) Micro Fiscal Policy and Macro Fiscal Policy
   (d) Trade Fiscal Policy and Investment Fiscal Policy

2. **What is the objective of an Expansionary Fiscal Policy?**
   (a) To control inflation and reduce aggregate demand
   (b) To reduce government spending and increase taxes
   (c) To stimulate economic growth and increase aggregate demand
   (d) To promote exports and reduce trade deficits

3. **How does Contractionary Fiscal Policy impact the economy?**
   (a) It leads to higher economic growth and reduced unemployment.
   (b) It stimulates private investment and increases consumer spending.
   (c) It reduces aggregate demand and controls inflation.
   (d) It promotes exports and improves the balance of payments.

4. **During an economic recession, which type of Fiscal Policy would be most appropriate?**
   (a) Expansionary Fiscal Policy (b) Contractionary Fiscal Policy
   (c) Monetary Fiscal Policy (d) Exchange Rate Fiscal Policy

5. **How does the government implement an Expansionary Fiscal Policy?**
   (a) By reducing government spending and increasing taxes
   (b) By reducing interest rates and controlling the money supply
   (c) By increasing government spending and reducing taxes
   (d) By regulating foreign exchange rates and trade balances

6. **What is the goal of a Contractionary Fiscal Policy?**
   (a) To promote exports and improve the balance of trade
   (b) To increase government spending and stimulate economic growth
   (c) To reduce government revenue and increase budget deficit
   (d) To control inflation and reduce aggregate demand

7. **What are the main instruments used in implementing Fiscal Policy?**
(a) Regulation of foreign exchange rates and monetary policies
(b) Control over the money supply and interest rates
(c) Government spending and taxation decisions
(d) Trade policies and export incentives

8. **In a period of high inflation and excessive economic growth, which type of Fiscal Policy is appropriate?**
(a) Expansionary Fiscal Policy (b) Contractionary Fiscal Policy
(c) Monetary Fiscal Policy (d) Exchange Rate Fiscal Policy

1.4 - The Instruments of Fiscal Policy

1. **Which of the following is an instrument of Fiscal Policy used to stimulate economic growth and increase aggregate demand?**
(a) Monetary Policy (b) Contractionary Fiscal Policy
(c) Exchange Rate Policy (d) Expansionary Fiscal Policy

2. **How does the government use taxation as an instrument of Fiscal Policy?**
(a) By imposing tariffs on imports to promote domestic industries
(b) By controlling the money supply and interest rates
(c) By regulating the exchange rate to boost exports
(d) By adjusting tax rates to influence disposable income consumption

3. **During periods of high inflation, which instrument of Fiscal Policy is most likely to be used?**
(a) Monetary Policy (b) Expansionary Fiscal Policy
(c) Exchange Rate Policy (d) Contractionary Fiscal Policy

4. **What is the primary objective of using government spending as an instrument of Fiscal Policy?**
(a) To regulate the money supply and control interest rates
(b) To increase tax revenue and reduce budget deficit
(c) To stimulate economic growth and create demand for goods and services
(d) To promote exports and improve the balance of trade

5. **How does the government use public investment as an instrument of Fiscal Policy?**
(a) By investing in foreign markets to promote international trade
(b) By providing subsidies to private companies for investments
(c) By investing in infrastructure projects to boost economic activity
(d) By controlling the foreign exchange rate and capital flows.

6. **Which of the following is an automatic stabilizer used in Fiscal Policy?**
(a) Public debt management (b) Progressive taxation
(c) Exchange rate intervention (d) Controlling inflation expectations

7. **How does Fiscal Policy complement monetary policy?**
(a) By controlling foreign exchange rates and capital flows
(b) By regulating the money supply and interest rates
(c) By promoting exports and reducing trade deficits
(d) By influencing government spending and taxation decisions

8. **When the government increases public expenditure on education and healthcare, it is using Fiscal Policy as an instrument to:**
(a) Regulate the money supply and control inflation
(b) Promote international trade and exports
(c) Enhance human capital and promote long-term economic growth
(d) Stabilize the financial market and control exchange rates

1.4.1 - Government Expenditure as an Instrument of Fiscal Policy

1. **How does the government use government expenditure as an instrument of Fiscal Policy?**
(a) By regulating foreign exchange rates and trade balances
(b) By controlling the money supply and interest rates
(c) By adjusting tax rates to influence consumption
(d) By increasing or decreasing spending on goods and services

2. **During a period of economic recession, what is the likely approach of the government regarding government expenditure?**
(a) Increase government expenditure to stimulate economic growth
(b) Maintain government expenditure at the current level

(c) Reduce government expenditure to control inflation

(d) Shift government expenditure towards defense and security

3. **How does an increase in government expenditure impact the economy?**

(a) It reduces aggregate demand and leads to deflation.

(b) It stimulates economic growth and increases employment.

(c) It increases trade deficits and depreciation of the currency.

(d) It leads to a budget surplus and reduces public debt.

4. **During a period of high inflation, what is the likely approach of the government regarding government expenditure?**

(a) Increase government expenditure to boost economic growth

(b) Maintain government expenditure at the current level

(c) Reduce government expenditure to control inflation

(d) Shift government expenditure towards social welfare programs

5. **Which sector of the economy is typically targeted by the government for increased expenditure during an economic recession?**

(a) Defense and security sector (b) Financial and banking sector

(c) Export-oriented industries (d) Infrastructure and social welfare sector

6. **How does government expenditure influence private investment?**

(a) By directly controlling interest rates in the financial market

(b) By providing subsidies and incentives to private companies

(c) By regulating foreign direct investment (FDI) and trade policies

(d) By creating a conducive business environment and increasing demand for goods and services

7. **Which of the following is a key consideration for the government while determining the allocation of government expenditure?**

(a) Increasing trade deficits and promoting exports

(b) Balancing the budget and reducing fiscal deficits

(c) Regulating foreign exchange rates and capital flows

(d) Addressing the needs of various sectors and promoting economic development

8. **What is the impact of an increase in government expenditure on fiscal deficit?**
   (a) It reduces the fiscal deficit due to increased tax revenue.
   (b) It has no impact on the fiscal deficit as long as tax rates remain constant.
   (c) It increases the fiscal deficit, especially if tax revenue does not increase proportionately.
   (d) It stabilizes the fiscal deficit by controlling public debt

1.4.2 - Taxes as an Instrument of Fiscal Policy

1. **How does the government use taxes as an instrument of Fiscal Policy?**
   (a) By adjusting government expenditure to influence aggregate demand
   (b) By controlling the money supply and interest rates
   (c) By increasing or decreasing tax rates to influence disposable income and consumption
   (d) By regulating foreign exchange rates and trade balances

2. **During a period of high inflation, what is the likely approach of the government regarding taxes?**
   (a) Increase tax rates to reduce disposable income and control inflation
   (b) Reduce tax rates to stimulate consumer spending and boost economic growth
   (c) Maintain tax rates at the current level and focus on other policy measures
   (d) Shift the tax burden towards corporate taxes and away from individual taxes

3. **How does a decrease in tax rates impact the economy?**
   (a) It reduces government revenue and increases budget deficit.
   (b) It stimulates economic growth and increases private investment.
   (c) It increases trade deficits and depreciation of the currency.
   (d) It leads to a surplus in the balance of trade and reduces public debt.

4. **During a period of economic recession, what is the likely approach of the government regarding taxes?**
   (a) Increase tax rates to boost government revenue and reduce fiscal deficit
   (b) Reduce tax rates to stimulate consumer spending and increase aggregate demand
   (c) Maintain tax rates at the current level and focus on other policy measures
   (d) Shift the tax burden towards individual taxes and away from corporate taxes

5. **Which type of tax policy is more suitable during periods of economic expansion and growth?**
   (a) Progressive tax policy with higher tax rates for higher income groups
   (b) Regressive tax policy with higher tax rates for lower income groups
   (c) Proportional tax policy with a flat tax rate for all income groups
   (d) Neutral tax policy with no changes in tax rates during economic cycles

6. **How does the government use tax incentives as a tool of Fiscal Policy?**
   (a) By reducing tax rates for essential goods and services
   (b) By providing subsidies to corporations for capital investments
   (c) By offering tax deductions and exemptions to encourage specific behaviors
   (d) By imposing higher taxes on luxury goods and services

7. **What is the impact of an increase in taxes on consumer spending?**
   (a) It leads to an increase in consumer spending due to higher disposable income.
   (b) It leads to a decrease in consumer spending due to reduced disposable income.
   (c) It has no impact on consumer spending as long as interest rates remain constant.
   (d) It leads to a shift in consumer spending towards non-taxable goods and services.

8. **How does the government use tax policy to address income inequality?**
   (a) By providing tax deductions only to high-income groups
   (b) By reducing tax rates for all income groups equally
   (c) By imposing higher taxes on low-income individuals
   (d) By implementing progressive tax rates with higher rates for higher income groups

1.4.3 - Public Debt as an Instrument of Fiscal Policy

1. **How does the government use public debt as an instrument of Fiscal Policy?**
   (a) By borrowing money from foreign governments to finance infrastructure projects
   (b) By repaying loans and reducing the fiscal deficit
   (c) By issuing government bonds to finance expenditures and stimulate economic growth
   (d) By using credit rating agencies to assess the government's financial position

2. **What is the impact of increased public debt on the economy?**
(a) It leads to lower interest rates and increased private investment.
(b) It reduces government expenditure and increases budget surplus.
(c) It may lead to higher interest rates and crowd out private investment.
(d) It has no impact on the economy as public debt is just an accounting entry.

3. **During an economic recession, how does the government use public debt as an instrument of Fiscal Policy?**
(a) By reducing public debt through fiscal consolidation measures
(b) By borrowing from international organizations to stimulate economic growth
(c) By issuing government bonds to finance stimulus packages and increase government spending
(d) By using credit rating agencies to assess the impact of public debt on the economy

4. **What is the primary purpose of issuing government bonds?**
(a) To control foreign exchange rates and stabilize the currency
(b) To provide subsidies to private companies for capital investments
(c) To finance government expenditures and infrastructure projects
(d) To reduce the fiscal deficit and increase budget surplus

5. **How does public debt affect future generations?**
(a) It has no impact on future generations as it is repaid through fiscal consolidation measures.
(b) It reduces the burden on future generations as they benefit from increased government spending.
(c) It may lead to higher taxes and debt servicing costs for future generations.
(d) It stimulates economic growth and ensures a better future for the next generation.

6. **What is the role of credit rating agencies in relation to public debt?**
(a) To invest in government bonds and assess their credit risk
(b) To determine the value of government bonds in the financial market
(c) To provide credit ratings for government bonds based on their risk and creditworthiness
(d) To regulate the issuance of government bonds in the international market

7. **What is the impact of a higher credit rating on government bonds?**
   (a) It leads to lower interest rates on government bonds and reduces the cost of borrowing for the government.
   (b) It leads to higher interest rates on government bonds and increases the cost of borrowing for the government.
   (c) It has no impact on interest rates as government bonds are risk-free.
   (d) It encourages foreign governments to borrow from the issuing country.

8. **How does public debt impact a country's fiscal sustainability?**
   (a) Public debt has no impact on fiscal sustainability as it is a common financial practice.
   (b) Public debt enhances fiscal sustainability by increasing government revenue.
   (c) Public debt may lead to fiscal instability if not managed properly.
   (d) Public debt ensures fiscal sustainability by reducing the budget deficit.

1.4.4 - Budget as an Instrument of Fiscal Policy

1. **How is the budget used as an instrument of Fiscal Policy?**
   (a) By controlling the money supply and interest rates
   (b) By regulating foreign exchange rates and trade balances
   (c) By adjusting government spending. and taxation to achieve economic objectives
   (d) By issuing government bonds to finance infrastructure projects

2. **What is the relationship between the budget deficit and Fiscal Policy?**
   (a) A budget deficit indicates that Fiscal Policy is expansionary.
   (b) A budget deficit indicates that Fiscal Policy is contractionary.
   (c) A budget deficit has no relation to Fiscal Policy.
   (d) A budget deficit indicates that monetary policy is expansionary.

3. **During an economic recession, what approach is the government likely to take with the budget?**
   (a) Increase government spending and reduce taxes to boost economic growth
   (b) Reduce government spending and increase taxes to control inflation
   (c) Maintain the current budget and wait for the economy to recover naturally
   (d) Shift the budget focus towards defense and security spending

4. How can a budget surplus be used as an instrument of Fiscal Policy?

(a) By investing the surplus in foreign markets to generate higher returns

(b) By increasing government spending on social welfare programs

(c) By using the surplus to repay public debt and reduce interest payments

(d) By reducing tax rates to stimulate consumer spending

5. How does an expansionary budget impact economic growth?

(a) It reduces economic growth due to increased government intervention.

(b) It stimulates economic growth by increasing government spending and boosting aggregate demand.

(c) It has no impact on economic growth as budgets are balanced.

(d) It stimulates economic growth by reducing government spending and increasing tax revenue.

6. How can a budget deficit be managed effectively?

(a) By increasing government spending to stimulate economic growth

(b) By reducing tax rates to encourage private investment

(c) By implementing austerity measures and reducing unnecessary expenses

(d) By printing more money to cover the deficit

7. During an inflationary period, what approach is the government likely to take with the budget?

(a) Increase government spending and reduce taxes to stimulate economic growth

(b) Reduce government spending and increase taxes to control inflation

(c) Maintain the current budget and wait for inflation to stabilize naturally

(d) Shift the budget focus towards defense and security spending

8. What is the significance of a well-balanced budget for Fiscal Policy?

(a) A well-balanced budget indicates that Fiscal Policy is expansionary.

(b) A well-balanced budget indicates that Fiscal Policy is contractionary.

(c) A well-balanced budget ensures fiscal sustainability and financial stability.

(d) A well-balanced budget leads to higher interest rates and debt servicing costs.

1.4.5 - Fiscal Policy for Long-run Economic Growth

1. **What is the primary objective of Fiscal Policy for long-run economic growth?**
   (a) To control inflation and stabilize the economy
   (b) To achieve short-term economic stability
   (c) To stimulate economic growth and increase aggregate demand
   (d) To promote sustainable and steady economic growth over time

2. **How can the government use Fiscal Policy to promote long-run economic growth?**
   (a) By increasing government spending during economic downturns
   (b) By implementing contractionary policies to control inflation
   (c) By reducing taxes to stimulate consumer spending
   (d) By investing in infrastructure and human capital development

3. **Which sector does the government typically prioritize for long-run economic growth?**
   (a) Defense and security sector (b) Financial and banking sector
   (c) Export-oriented industries (d) Infrastructure and education sector

4. **How does investment in research and development contribute to long-run economic growth?**
   (a) It increases government revenue and reduces budget deficit.
   (b) It reduces unemployment and stimulates economic growth in the short term.
   (c) It promotes technological advancements and enhances productivity.
   (d) It increases foreign direct investment and improves trade balances.

5. **What role does Fiscal Policy play in addressing income inequality for long-run economic growth?**
   (a) Fiscal Policy has no impact on income inequality in the long run.
   (b) Fiscal Policy reduces income inequality through wealth redistribution measures.
   (c) Fiscal Policy increases income inequality by favoring higher-income groups.
   (d) Fiscal Policy addresses· income inequality through short-term subsidies.

6. **How does a stable macroeconomic environment contribute to long-run economic growth?**
   (a) It leads to higher inflation and higher interest rates.
   (b) It increases uncertainty and discourages investment.
   (c) It fosters confidence and encourages private sector investment.
   (d) It leads to budget deficits and excessive government borrowing.

7. **What is the significance of fiscal discipline in achieving long-run economic growth?**
   (a) Fiscal discipline leads to higher public debt and. increased government spending.
   (b) Fiscal discipline ensures that government spending aligns with economic priorities.
   (c) Fiscal discipline leads to higher inflation and currency depreciation.
   (d) Fiscal discipline has no impact on long-run economic growth.

8. **How does investment in education contribute to long-run economic growth?**
   (a) It increases. government revenue through higher taxation.
   (b) It reduces government expenditure on social welfare programs.
   (c) It enhances human capital and improves labor productivity.
   (d) It increases foreign direct investment and trade balances.

1.4.6 - Fiscal Policy for Reduction in Inequalities of Income and Wealth

1. **What is the primary objective of Fiscal Policy for reducing inequalities of income and wealth?**
   (a) To promote economic growth and increase aggregate demand
   (b) To achieve short-term economic stability
   (c) To stimulate consumer spending through tax cuts
   (d) To promote a more equitable distribution of income and wealth

2. **How can the government use Fiscal Policy to reduce income inequality?**
   (a) By increasing government spending on defense and security
   (b) By implementing contractionary policies to control inflation
   (c) By reducing tax rates for higher-income groups
   (d) By implementing progressive taxation and social welfare programs

3. **What role does Fiscal Policy play in wealth redistribution?**
   (a) Fiscal Policy has no impact on wealth redistribution in the long run.
   (b) Fiscal Policy reduces wealth inequality through progressive taxation and inheritance taxes.
   (c) Fiscal Policy increases wealth inequality by favoring higher-income groups.
   (d) Fiscal Policy addresses wealth redistribution through short-term subsidies.

4. **How can the government use social welfare programs to address inequalities?**
   (a) By providing subsidies to corporations for capital investments
   (b) By reducing government spending to decrease the budget deficit
   (c) By targeting financial assistance to vulnerable and disadvantaged groups
   (d) By implementing tax cuts for high-income individuals

5. **How does Fiscal Policy impact the disposable income of low-income individuals?**
   (a) Fiscal Policy has no impact on disposable income.
   (b) Fiscal Policy increases disposable income through tax cuts for higher-income groups.
   (c) Fiscal Policy increases disposable income through tax cuts for lower-income groups.
   (d) Fiscal Policy decreases disposable income through higher taxation.

6. **What is the significance of public spending on education and healthcare for reducing income and wealth inequalities?**
   (a) Public spending on education and healthcare increases income inequality.
   (b) Public spending on education and healthcare has no impact on income and wealth inequalities.
   (c) Public spending on education arid healthcare reduces income and wealth inequalities by improving access to essential services.
   (d) Public spending on education and healthcare leads to higher budget deficits.

7. **What role can Fiscal Policy play in promoting equal opportunities for all citizens?**
   (a) Fiscal Policy can allocate resources based on political considerations.
   (b) Fiscal Policy can favor certain industries and corporations.
   (c) Fiscal Policy can provide tax breaks only to higher income individuals.
   (d) Fiscal Policy can support policies that promote education and skill development for all citizens.

8. **How does an increase in the minimum wage contribute to reducing· income inequality?**
   (a) An increase in the minimum wage has no impact on income inequality.
   (b) An increase in the minimum wage reduces income inequality by raising the earnings of low-income workers.
   (c) An increase in the minimum wage widens income inequality by reducing profits for businesses.
   (d) An increase in the minimum wage leads to higher unemployment and income disparities.

1.4.7 - Limitations of Fiscal Policy

1. **What are the limitations of Fiscal Policy in managing the economy?**
   (a) Fiscal Policy is not effective in influencing aggregate demand.
   (b) Fiscal Policy can only be implemented during periods of economic expansion.
   (c) Fiscal Policy can lead to inflation and currency depreciation.
   (d) Fiscal Policy is not a suitable tool for addressing income inequality.

2. **What happens when Fiscal Policy is implemented with a time lag?**
   (a) It leads to immediate and effective results in the economy.
   (b) It increases the effectiveness of Fiscal Policy in managing inflation.
   (c) It may lead to a mismatch between the timing of the policy measures and the economic conditions.
   (d) It reduces the impact of Fiscal Policy on economic growth.

3. **What is the crowding-out effect in relation to Fiscal Policy?**
   (a) It refers to an increase in private investment due to government spending.
   (b) It refers to a decrease in private investment due to government borrowing.
   (c) It refers to the increase in consumer spending due to government tax cuts.
   (d) It refers to the reduction in government expenditure to control inflation.

4. **What is the fiscal imprudence limitation of Fiscal Policy?**
   (a) It refers to the government's inability to implement tax cuts effectively.
   (b) It refers to the risk of a budget surplus leading to economic instability.
   (c) It refers to the risk of excessive government borrowing and budget deficits.
   (d) It refers to the government's inability to reduce public debt.

5. **How can international factors limit the effectiveness of Fiscal Policy?**
   (a) International factors have no impact on Fiscal Policy.
   (b) International factors can lead to fluctuations in exchange rates.
   (c) International factors can influence the level of government revenue.
   (d) International factors can affect the effectiveness of export-oriented policies.

6. **What is the Ricardian Equivalence proposition?**
   (a) It suggests that changes in government spending have no impact on aggregate demand.
   (b) It suggests that tax cuts increase disposable income and boost consumer spending.
   (c) It suggests that changes in government debt have no impact on the economy.
   (d) It suggests that consumers may offset tax cuts by increasing their savings.

7. **How can political considerations limit the effectiveness of Fiscal Policy?**
   (a) Political considerations may lead to excessive government spending.
   (b) Political considerations can delay the implementation of Fiscal Policy measures.
   (c) Political considerations have no impact on Fiscal Policy decisions.
   (d) Political considerations can lead to a reduction in taxation.

8. **What is the risk associated with using Fiscal Policy as the primary tool for stabilization?**
   (a) The risk of inflation due to increased government spending.
   (b) The risk of exchange rate volatility due. to changes in tax rates.
   (c) The risk of excessive government borrowing and debt accumulation.
   (d) The risk of reduced consumer spending due to tax cuts.

1.4.8 - Crowding Out

1. **What is the crowding-out effect in the context of Fiscal Policy?**
   (a) It refers to an increase in private investment due to government spending.
   (b) It refers to a decrease in private investment due to government borrowing.
   (c) It refers to an increase in consumer spending due to government tax cuts.
   (d) It refers to the reduction in government expenditure to control inflation.

2. **How does crowding out occur in the economy?**
   (a) Crowding out occurs when the government increases its spending to boost economic growth.
   (b) Crowding out occurs when the govern merit reduces its spending to control inflation.
   (c) Crowding out occurs when the government competes with the private sector for funds in the financial market.
   (d) Crowding out occurs when the government increases taxes to reduce aggregate demand.

3. **How does crowding out affect interest rates in the economy?**
   (a) Crowding out has no impact on interest rates as they are determined by the central bank.
   (b) Crowding out leads to higher interest rates due to increased government borrowing.
   (c) Crowding out leads to lower interest rates due to increased private sector borrowing.
   (d) Crowding out has no impact on interest rates as they are determined by market forces.

4. **What is the opportunity cost of crowding out in the economy?**
   (a) The opportunity cost of crowding out is the potential loss of tax revenue for the government.
   (b) The opportunity cost of crowding out is the potential reduction in private investment and economic growth.
   (c) The opportunity cost of crowding out is the potential loss of government revenue from taxes.
   (d) The opportunity cost of crowding our is the potential increase in government expenditure.

5. **How can crowding out impact the effectiveness of Fiscal Policy?**
   (a) Crowding out increases the effectiveness of Fiscal Policy in stimulating economic growth.
   (b) Crowding out has no impact on the effectiveness of Fiscal Policy.

(c) Crowding out reduces the effectiveness of Fiscal Policy in stimulating economic growth.
(d) Crowding out leads to a decrease in government expenditure and budget surplus.

6. **What happens to private sector borrowing in the presence of crowding out?**
(a) Private sector borrowing decreases due to lower interest rates.
(b) Private sector borrowing increases due to higher interest rates.
(c) Private sector borrowing remains unaffected by crowding out.
(d) Private sector borrowing decreases due to higher taxes.

7. **What can the government do to mitigate the crowding-out effect?**
(a) The government can increase its borrowing to outcompete the private sector.
(b) The government can reduce taxes to increase private sector spending.
(c) The government can impose price controls to limit interest rates.
(d) The government can implement austerity measures to reduce spending.

8. **Which of the following situations is most likely to lead to crowding out in the economy?**
(a) A decrease in government borrowing and increased private sector investment.
(b) An increase in government borrowing and increased private sector investment.
(c) A decrease in government borrowing and decreased private sector investment.
(d) An increase in government borrowing and decreased private sector investment.

1.4.9 - Conclusion

1. **What is the main objective of Fiscal Policy?**
(a) To control inflation and stabilize prices
(b) To achieve short-term economic stability
(c) To promote long-term economic growth and stability
(d) To regulate foreign trade and exchange rates

2. **How does Fiscal Policy differ from Monetary Policy?**
(a) Fiscal Policy focuses on regulating money supply and interest rates, while Monetary Policy manages government spending and taxation.

(b) Fiscal Policy is implemented by the central bank, while Monetary Policy is implemented by the government.
(c) Fiscal Policy involves managing government spending and taxation, while Monetary Policy involves regulating money supply and interest rates.
(d) Fiscal Policy and Monetary Policy are the same and used interchangeably.

3. **How can Fiscal Policy be used to address recessionary conditions in the economy?**
(a) By increasing government spending and reducing taxes to boost aggregate demand
(b) By reducing government spending and increasing taxes to control inflation
(c) By implementing austerity measures to reduce budget deficit
(d) By increasing interest rates to attract foreign investments

4. **What is the significance of automatic stabilizers in Fiscal Policy?**
(a) Automatic stabilizers increase government borrowing to stimulate economic growth.
(b) Automatic stabilizers automatically adjust government spending and taxation in response to economic fluctuations.
(c) Automatic stabilizers reduce government spending during economic downturns.
(d) Automatic stabilizers reduce taxes to control inflation.

5. **What are the limitations of Fiscal Policy in managing the economy?**
(a) Fiscal Policy is not effective in influencing aggregate demand.
(b) Fiscal Policy can only be implemented during periods of economic expansion.
(c) Fiscal Policy can lead to inflation and currency depreciation.
(d) Fiscal Policy is not a suitable tool for addressing income inequality.

6. **How can political considerations impact the effectiveness of Fiscal Policy?**
(a) Political considerations can lead to excessive government spending.
(b) Political considerations can delay the implementation of Fiscal Policy measures.
(c) Political considerations have no impact on Fiscal Policy decisions.
(d) Political considerations can lead to a reduction in taxation.

7. **What is the crowding-out effect in relation to Fiscal Policy?**
(a) It refers to an increase in private investment due to government spending
(b) It refers to a decrease in private investment due to government borrowing.
(c) It refers to an increase in consumer spending due to government tax cuts.
(d) It refers to the reduction in government expenditure to control inflation.

8. **What is the primary objective of Fiscal Policy for long-run economic growth?**
(a) To control inflation and stabilize the economy
(b) To-achieve short-term economic stability
(c) To stimulate economic growth and increase aggregate demand.
(d) To promote sustainable and steady economic growth over time

Additional Question Bank

1.1 - Introduction

1. **Fiscal policy is a tool used by governments to:**
(a) Control inflation
(b) Influence the money supply
(c) Stabilize the economy through taxation and government spending
(d) Regulate interest rates

2. **Expansionary fiscal policy involves:**
(a) Decreasing government spending and increasing taxes
(b) Decreasing government spending and decreasing taxes
(c) Increasing government spending and decreasing taxes
(d) Increasing government spending and increasing taxes

3. **Contractionary fiscal policy is implemented to:**
(a) Encourage borrowing and spending
(b) Combat recession and control inflation
(c) Stimulate economic growth
(d) Increase the money supply

4. **When the government's total expenditures exceed its total revenues in a fiscal year, it results in:**
(a) A budget surplus
(b) A budget deficit
(c) Fiscal equilibrium
(d) An inflationary gap

5. Automatic stabilizers in fiscal policy refer to:

(a) Automatic adjustments in tax rates and government spending that counter economic fluctuations

(b) Fixed government spending that remains constant regardless of economic conditions

(c) The government's ability to stabilize the stock market automatically

(d) The automatic increase in interest rates during a recession

1.2 - Objectives of Fiscal Policy

1. The primary objective of fiscal policy is to:

(a) Control inflation
(b) Stabilize the exchange rate
(c) Maximize government revenue
(d) Promote economic stability and growth

2. Fiscal policy can be used to reduce unemployment by:

(a) Decreasing government spending and increasing taxes

(b) Decreasing government spending and decreasing taxes

(c) Increasing government spending and decreasing taxes

(d) Increasing government spending and increasing taxes

3. To control inflation, the government can use:

(a) Expansionary fiscal policy
(b) Contractionary fiscal policy
(c) Neutral fiscal policy
(d) Fiscal austerity measures

4. When the government aims to achieve a balanced budget, it means:

(a) Government spending is equal to government revenue

(b) Government spending exceeds government revenue

(c) Government revenue exceeds government spending

(d) Government spending is minimized to zero

5. One of the social objectives of fiscal policy is to:

(a) Encourage foreign investment
(b) Promote exports
(c) Reduce income inequality
(d) Increase interest rates

1.3 - Types of Fiscal Policy

1. **Which type of fiscal policy is used during periods of economic downturn or recession to stimulate economic growth?**

   (a) Expansionary fiscal policy (b) Contractionary fiscal policy
   (c) Neutral fiscal policy (d) Austerity fiscal policy

2. **When the government aims to decrease aggregate demand and control inflation, it adopts:**

   (a) Expansionary fiscal policy (b) Contractionary fiscal policy
   (c) Neutral fiscal policy (d) Regressive fiscal policy

3. **Fiscal policy that aims to keep the economy at a stable growth rate without significant fluctuations is called:**

   (a) Expansionary fiscal policy (b) Contractionary fiscal policy
   (c) Neutral fiscal policy (d) Counter-cyclical fiscal policy

4. **A government reducing public spending and increasing taxes to address a high budget deficit and reduce inflation is an example of:**

   (a) Expansionary fiscal policy (b) Contractionary fiscal policy
   (c) Neutral fiscal policy (d) Discretionary fiscal policy

5. **Automatic stabilizers are considered a part of which type of fiscal policy?**

   (a) Expansionary fiscal policy (b) Contractionary fiscal policy
   (c) Automatic fiscal policy· (d) Discretionary fiscal policy

1.4 - The Instruments of Fiscal Policy

1. **Which fiscal policy instrument involves the government's ability to control the total amount of money in circulation and the interest rates?**

   (a) Government spending (b) Taxation
   (c) Public debt (d) Monetary policy

2. **How does the government use fiscal policy to implement expansionary measures during a. recession?**

   (a) Decreasing government spending and increasing taxes

(b) Increasing government spending and increasing taxes

(c) Increasing government spending and decreasing taxes

(d) Decreasing government spending and decreasing taxes

3. **When the government aims to reduce inflation and control economic growth, it can use which fiscal policy instrument?**

(a) Decreasing government spending (b) Increasing government spending

(c) Increasing taxes (d) Decreasing taxes

4. **Which fiscal policy instrument can be used to finance government spending and bridge budget deficits?**

(a) Government subsidies (b) Public debt

(c) Automatic stabilizers (d) Fiscal multipliers

5. **Fiscal policy can be employed to achieve income redistribution by:**

(a) Increasing corporate taxes (b) Implementing progressive income taxes

(c) Decreasing sales taxes (d) Providing subsidies to businesses

ANSWERS (Unit 4):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	B	5.	D
6.	D	7.	B	8.	C				

1.2 – Objectives of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	B	3.	A	4.	B	5.	B
6.	C	7.	D	8.	A				

1.3 – Types of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	A	5.	C
6.	D	7.	C	8.	B				

1.4 – The Instruments of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	D	3.	D	4.	C	5.	C
6.	B	7.	D	8.	C				

1.4.1 – Government Expenditure as an Instrument of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	A	3.	B	4.	C	5.	D
6.	D	7.	D	8.	C				

1.4.2 – Taxes as an Instrument of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	B	4.	B	5.	A
6.	C	7.	B	8.	D				

1.4.3 – Public debt as an Instrument of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	C	5.	C
6.	C	7.	A	8.	C				

1.4.4 – Budget as an Instrument of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	A	4.	C	5.	B
6.	C	7.	B	8.	C				

1.4.5 –Fiscal Policy for Long-run Economic Growth

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	D	3.	D	4.	C	5.	B
6.	C	7.	B	8.	C				

1.4.6 –Fiscal Policy for Reduction in Inequalities of Income and Wealth

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	D	3.	B	4.	C	5.	C
6.	C	7.	D	8.	B				

1.4.7 – Limitations of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	B	4.	C	5.	D
6.	D	7.	B	8.	C				

1.4.8 – Crowding Out

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	B	5.	C
6.	B	7.	B	8.	D				

1.4.9 – Conclusion

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	A	4.	B	5.	A
6.	B	7.	B	8.	D				

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	B	5.	A

1.2 – Objectives of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	B	4.	A	5.	C

1.3 – Types of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	C	4.	B	5.	C

1.4 – The Instruments of Fiscal Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	B	5.	B

Notes:

CHAPTER-3

Money Market

Unit 1: The Concept of Money Demand: Important Theories

1.1 - Introduction

1. **What is the concept of money demand in economic?**
   (a) It refers to the quantity of money supplied by the central bank.
   (b) It refers to the desire of individuals and businesses to hold money for transactions and speculative purposes.
   (c) It refers to the quantity of money demanded by the government for its expenditures.
   (d) It refers to the total money supply in the economy.

2. **What does the speculative motive for holding money suggest?**
   (a) Individuals hold money to finance their day-to-day expenses.
   (b) Individuals hold money as a store of value to preserve wealth.
   (c) Individuals hold money to speculate on the future direction of interest rates.
   (d) Individuals hold money to invest in financial assets.

3. **Which of the following is NOT a component of the demand for money?**
   (a) Transaction motive (b) Speculative motive
   (c) Precautionary motive (d) Investment motive

4. **What is the transaction motive for holding money?**
   (a) It refers to holding money to speculate on future price changes in financial assets.
   (b) It refers to holding money for future investment opportunities;
   (c) It refers to holding money to finance day-to-day transactions and purchases.
   (d) It refers to holding money to preserve wealth.

5. **How does an increase in interest rates affect the demand for money?**
   (a) An increase in interest rates decreases the demand for money.
   (b) An increase in interest rates increases the demand for money.
   (c) An increase in interest rates has no impact on the demand for money.
   (d) An increase in interest rates reduces the money supply.

6. **What are the factors that influence the demand for money in an economy?**
(a) The quantity of money supplied by the central bank and the level of government spending.
(b) The level of economic growth and the rate of inflation.
(c) The level of interest rates, the level of income and the price level.
(d) The quantity of money demanded by consumers and businesses.

7. **Which theory of money demand suggests that people hold money because they prefer liquidity over other assets?**
(a) Quantity Theory of Money
(b) Cambridge Cash-Balance Theory
(c) Keynesian Liquidity Preference Theory
(d) Classical Quantity Theory of Money

8. **According to the Cambridge Cash-Balance Theory, what is the relationship between the demand for money and the price level?**
(a) There is a positive relationship between the demand for money and the price level.
(b) There is a negative relationship between the demand for money and the price level.
(c) There is no relationship between the demand for money and the price level.
(d) The demand for money is influenced by changes in the money supply, not the price level.

<u>Fiat Money</u>

9. **What is fiat money?**
(a) Money that has intrinsic value based on its physical properties.
(b) Money that is backed by a commodity, such as gold or silver.
(c) Money that is declared legal tender by the government and has no intrinsic value.
(d) Money that is used for online transactions and digital payments.

10. **What gives value to fiat money?**
(a) Its acceptance by the international community.
(b) Its backing by a commodity, such as gold.
(c) Its supply and demand in the foreign exchange market.
(d) The trust and confidence of the people in the government and the economy.

11. Which of the following statements is true about fiat money?

(a) Fiat money has intrinsic value based on its physical properties.

(b) Fiat money is backed by a commodity, such as gold.

(c) Fiat money is not subject to inflationary pressures.

(d) Fiat money is susceptible to hyperinflation if not properly managed.

12. What distinguishes fiat money from commodity money?

(a) Commodity money is declared legal tender by the government, while fiat money has intrinsic value.

(b) Commodity money is backed by a commodity, while fiat money has no intrinsic value.

(c) Commodity money is used for online transactions, while fiat money is physical currency.

(d) Commodity money is widely accepted internationally, while fiat money is limited to domestic use.

13. How does fiat money facilitate transactions in an economy?

(a) By providing a medium of exchange without any value.

(b) By allowing barter exchanges between goods and services.

(c) By serving as a store of value based on its intrinsic worth.

(d) By acting as a widely accepted medium of exchange with government backing.

14. Which of the following best describes the source of value for fiat money?

(a) Its physical properties and rarity.

(b) Its backing by precious metals, such as gold or silver.

(c) Its acceptance and recognition as a medium of exchange by the government.

(d) its fixed exchange rate with foreign currencies.

15. How does the government control the supply of fiat money in the economy?

(a) By printing more money to stimulate economic growth.

(b) By linking the money supply to the country's foreign exchange reserves.

(c) By adhering to a fixed exchange rate with other countries.

(d) By managing the money supply through monetary policy and central bank actions.

16. **What are the advantages of using fiat money as a medium of exchange?**
(a) It has intrinsic value based on its physical properties.
(b) It provides a stable and fixed exchange rate with foreign currencies.
(c) It can be easily controlled and managed by the government.
(d) It is not subject to inflationary pressures.

1.2 - The Demand for Money

1. **What does the demand for money refer to in economics?**
(a) The total amount of money in circulation in the economy.
(b) The desire of individuals and businesses to hold money for various purposes.
(c) The quantity of money supplied by the central bank.
(d) The amount of money demanded by the government for its expenditures.

2. **Which of the following is NOT a motive for holding money?**
(a) Transaction motive (b) Precautionary motive
(c) Speculative motive (d) Investment motive

3. **What is the transaction motive for holding money?**
(a) It refers to holding money for future investment opportunities.
(b) It refers to holding money to speculate on future price changes in financial assets.
(c) It refers to holding money to finance day-to-day transactions and purchases.
(d) It refers to holding money to preserve wealth.

4. **How does an increase in interest rates affect the demand for money?**
(a) An increase in interest rates decreases the demand for money.
(b) An increase in interest rates increases the demand for money.
(c) An increase in interest rates has no impact on the demand for money.
(d) An increase in interest rates reduces the money supply.

5. **Which theory of money demand suggests that people hold money because they prefer liquidity over other assets?**
(a) Quantity Theory of Money (b) Cambridge Cash-Balance Theory
(c) Keynesian Liquidity Preference Theory (d) Classical Quantity Theory of Money

6. **According to the Cambridge Cash-Balance Theory, what is the relationship between the demand for money and the price level?**
   (a) There is a positive relationship between the demand for money and the price level.
   (b) There is a negative relationship between the demand for money and the price level.
   (c) There is no relationship between the demand for money and the price level.
   (d) The demand for money is influenced by changes in the money supply, not the price level.

7. **Which theory of money demand suggests that the demand for money depends on the interest rate and the level of income?**
   (a) Quantity Theory of Money (b) Classical Quantity Theory of Money
   (c) Keynesian Liquidity Preference Theory (d) Cambridge Cash-Balance Theory

8. **What is the speculative motive for holding money?**
   (a) It refers to holding money for future investment opportunities.
   (b) It refers to holding money to speculate on future price changes in financial assets.
   (c) It refers to holding money to finance day-to-day transactions and purchases.
   (d) It refers to holding money to preserve wealth.

1.3 - Theories of Demand for Money

1. **Which theory of demand for money suggests that people hold money for transactions, precautionary and speculative motives?**
   (a) Classical Quantity Theory of Money (b) Keynesian Liquidity Preference Theory
   (c) Cambridge Cash-Balance Theory (d) Quantity Theory of Money

2. **According to the Keynesian Liquidity Preference Theory, what determines the demand for money?**
   (a) The price level and the level of income in the economy.
   (b) The interest rate and the level of investment in the economy.
   (c) The rate of inflation and the government's fiscal policy.
   (d) The exchange rate and the country's foreign trade.

3. **Which theory of demand for money suggests that people hold money to take advantage of potential changes in interest rates?**

(a) Cambridge Cash-Balance Theory (b) Quantity Theory of Money

(c) Classical Quantity Theory of Money (d) Keynesian Liquidity Preference Theory

4. **According to the Cambridge Cash-Balance Theory, what is the relationship between the demand for money and the interest rate?**

(a) There is a positive relationship between the demand for money and the interest rate.

(b) There is a negative relationship between the demand for money and the interest rate.

(c) There is no relationship between the demand for money and the interest rate.

(d) The demand for money is solely determined by changes in the money supply.

5. **Which theory of demand for money focuses on the long-run relationship between money demand and income?**

(a) Keynesian Liquidity Preference Theory (b) Quantity Theory of Money.

(c) Classical Quantity Theory of Money (d) Cambridge Cash-Balance Theory

6. **What does the Quantity Theory of Money state about the demand for money in relation to income?**

(a) The demand for money is inversely proportional to the level of income.

(b) The demand for money is directly proportional to the level of income.

(c) The demand for money is unrelated to the level of income.

(d) The demand for money is determined solely by the interest rate.

7. **According to the Classical Quantity Theory of Money, what is the primary determinant of the demand for money?**

(a) The interest rate in the economy.

(b) The price level and the level of income.

(c) The level of government spending and taxation.

(d) The supply of money by the central bank.

8. **What is the central proposition of the Classical Quantity Theory of Money?**
   (a) An increase in the money supply leads to a proportional increase in prices.
   (b) An increase in the money supply leads to a proportional decrease in prices.
   (c) An increase in the money supply leads to a proportional increase in output and income.
   (d) An increase in the money supply has no impact on the economy.

1.3.1 - Classical Approach: The Quantity Theory of Money (QTM)

1. **According to the Classical Quantity Theory of Money (QTM), what is the primary determinant of the price level in an economy?**
   (a) The level of income and output.
   (b) The quantity of money in circulation.
   (c) The interest rate set by the central bank.
   (d) The level of government spending.

2. **The Classical Quantity Theory of Money (QTM) assumes which of the following?**
   (a) Stable velocity of money.
   (b) Variable money demand.
   (c) Inverse relationship between money supply and price level.
   (d) Constant level of economic output.

3. **According to the Classical Quantity Theory of Money (QTM), what happens if the money supply increases while other factors remain unchanged?**
   (a) Prices and output will both increase proportionally.
   (b) Prices will increase proportionally, but output remains unchanged.
   (c) Output will increase proportionally, but prices remain unchanged.
   (d) Prices and output will both remain unchanged.

4. **How does the Classical Quantity Theory of Money (QTM) view the relationship between money supply and inflation?**
   (a) An increase in the money supply leads to deflation.
   (b) An increase in the money supply has no impact on inflation.
   (c) An increase in the money supply leads to inflation.
   (d) An increase in the money supply leads to stagflation.

5. **What does the equation MV PT represent in the context of the Classical Quantity Theory of Money (QTM)?**
(a) The relationship between money supply and interest rates.
(b) The relationship between money supply and economic output.
(c) The relationship between money supply and the price level.
(d) The relationship between money supply and the velocity of money.

6. **How does the Classical Quantity Theory of Money (QTM) view the long-run relationship between money supply and economic growth?**
(a) An increase in the money supply leads to sustainable economic growth.
(b) An increase in the money supply has no impact on economic growth.
(c) An increase in the money supply leads to temporary economic growth, followed by contraction.
(d) An increase in the money supply leads to short-run economic growth, followed by inflation.

7. **According to the Classical Quantity Theory of Money (QTM), what happens if the money supply increases more rapidly than the growth rate of real output?**
(a) Inflation will occur. (b) Deflation will occur.
(c) There will be no impact on the economy. (d) The velocity of money will increase.

8. **How does the Classical Quantity Theory of Money (QTM) view the role of monetary policy in managing the economy?**
(a) Monetary policy can control inflation but has no impact on output.
(b) Monetary policy can control output but has no impact on inflation.
(c) Monetary policy can control both inflation and output.
(d) Monetary policy is ineffective in managing the economy.

1.3.2 - The Cambridge approach

1. **What is the Cambridge Approach in the context of the demand for money?**
(a) It is a theory that focuses on the speculative motive for holding money.
(b) It is a theory that emphasizes the transaction motive for holding money.
(c) It is a theory that considers both the transaction and speculative motives for holding money.
(d) It is a theory that rejects the relevance of money demand in the economy.

2. **According to the Cambridge Approach, what is the key factor that influences the demand for money?**
   (a) The interest rate set by the central bank.
   (b) The price level and the level of income in the economy.
   (c) The rate of inflation and the level of government spending.
   (d) The exchange rate and the country's foreign trade.

3. **How does the Cambridge Approach view the relationship between the demand for money and the interest rate?**
   (a) There is a positive relationship between the demand for money and the interest rate.
   (b) There is a negative relationship between the demand for money and the interest rate.
   (c) There is no relationship between the demand for money and the interest rate.
   (d) The demand for money is solely determined by changes in the money supply.

4. **What does the Cambridge Equation, Md = kPY, represent?**
   (a) The demand for money (Md) is equal to the price level (P) multiplied by the income level (Y).
   (b) The demand for money (Md) is equal to the money supply (M) multiplied by the velocity of money (V).
   (c) The demand for money (Md) is equal to the interest rate (r) divided by the price level (P).
   (d) The demand for money (Md) is equal to the level of government spending (G) divided by the price level (P).

5. **What does the parameter 'k'-in the Cambridge Equation Md=, kPY signify?**
   (a) The money supply in the economy.
   (b) The velocity of money.
   (c) The interest rate set by the central bank.
   (d) The proportion of income held as money.

6. **According to the Cambridge Approach, how does an increase in income affect the demand for money?**
   (a) An increase in income leads to a decrease in the demand for money.
   (b) An increase in income has no impact on the demand for money.

(c) An increase in income leads to an increase in the demand for money.

(d) An increase in income leads to a shift from speculative to transaction motive for holding money.

7. **What does the speculative motive for holding money refer to in the Cambridge. Approach?**

(a) Holding money to finance day-to-day transactions.

(b) Holding money to take advantage of potential changes in interest rates.

(c) Holding money to preserve wealth and protect against uncertainties.

(d) Holding money to finance future investment opportunities.

8. **How does the Cambridge Approach view the relationship between the demand for money and the price level?**

(a) There is a positive relationship between the demand for money and the price level.

(b) There is a negative relationship between the demand for money and the price level.

(c) There is no relationship between the demand for money and the price level.

(d) The demand for money is solely determined by changes in the money supply.

1.3.3 - The Keynesian Theory of Demand for Money

1. **According to the Keynesian Theory of Demand for Money, what are the primary motives for holding money?**

(a) Transaction motive and speculative motive.

(b) Precautionary motive and speculative motive.

(c) Transaction motive and precautionary motive.

(d) Transaction motive, precautionary motive, and speculative motive.

2. **What does the transaction motive for holding money refer to in the Keynesian Theory?**

(a) Holding money for future investment opportunities.

(b) Holding money to speculate on future price changes in financial assets.

(c) Holding money to preserve wealth and protect against uncertainties.

(d) Holding money to finance day-to-day transactions and purchases.

3. **According to the Keynesian Theory of Demand for Money, what happens to the demand for money if there is an increase in income?**

(a) The demand for money increases.

(b) The demand for money decreases.

(c) The demand for money remains unchanged.

(d) The demand for money is determined solely by changes in the money supply.

4. **How does the Keynesian Theory of Demand for Money view the relationship between the demand for money and the interest rate?**

(a) There is a positive relationship between the demand for money and the interest rate.

(b) There is a negative relationship between the demand for money and the interest rate.

(c) There is no relationship between the demand for money and the interest rate.

(d) The demand for money is solely determined by changes in the money supply.

5. **How does the Keynesian Theory of Demand for Money explain the preference for holding money in liquid form?**

(a) People prefer to hold money as it generates interest income.

(b) People prefer to hold money to preserve wealth.

(c) People prefer to hold money for speculative purposes.

(d) People prefer to hold money to avoid the risk of illiquidity.

6. **What does the speculative motive for holding money refer to in the Keynesian Theory?**

(a) Holding money for future investment opportunities.

(b) Holding money to speculate on future price changes in financial assets.

(c) Holding money to preserve wealth and protect against uncertainties.

(d) Holding money to finance day-to-day transactions and purchases.

7. **How does the Keynesian Theory of Demand for Money view the role of interest rates in influencing investment decisions?**

(a) Interest rates have no impact on investment decisions.

(b). Lower interest rates stimulate more investment.

(c) Higher interest rates stimulate more investment.

(d) Investment decisions are solely based on the level of income.

8. According to the Keynesian Theory of Demand for Money, how does an increase in liquidity preference affect the demand for money?

(a) The demand for money increases.

(b) The demand for money decreases.

(c) The demand for money remains unchanged.

(d) The demand for money is solely determined by changes in the money supply.

<u>(a) The Transactions Motive:</u>

9. What does the "Transactions Motive" for holding money refer to?

(a) Holding money to preserve wealth and protect against uncertainties.

(b) Holding money to take advantage of potential changes in the value of financial assets.

(c) Holding money for speculative purposes.

(d) Holding money to finance day-to-day transactions and purchases.

10. According to the Transactions Motive, what happens to the demand for money when the frequency of transactions increases?

(a) The demand for money decreases.

(b) The demand for money increases.

(c) The demand for money remains unchanged.

(d) The demand for money is solely determined by changes in the money supply.

11. How does the Transactions Motive explain the need for holding money in liquid form?

(a) People prefer to hold money as it generates interest income:

(b) People prefer to hold money to preserve wealth.

(c) People prefer to hold money for speculative purposes.

(d) People prefer to hold money to avoid the risk of illiquidity.

12. Which of the following situations would lead to an increase in the demand for money due to the Transactions Motive?

(a) A decrease in the level of economic activity.

(b) An increase in the use of credit cards for transactions.

(c) A decrease in the price level.

(d) An increase in the interest rates.

13. How does the Transactions Motive influence the velocity of money in an economy?

(a) It increases the velocity of money.

(b) It decreases the velocity of money.

(c) It has no impact on the velocity of money.

(d) It leads to unpredictable changes in the velocity of money.

14. According to the Transactions Motive, how does the level of economic activity affect the demand for money?

(a) An increase in economic activity leads to an increase in the demand for money.

(b) An increase in economic activity leads to a decrease in the demand for money.

(c) The level of economic activity has no impact on the demand for money.

(d) The demand for money is solely determined by changes in the money supply.

15. Which of the following is an example of the Transactions Motive for holding money?

(a) Investing in stocks to earn capital gains.

(b) Keeping money in a savings account to earn interest.

(c) Holding cash to pay for groceries and daily expenses.

(d) Speculating on the future price of gold.

16. How does the Transactions Motive relate to the demand for money during periods of economic expansion?

(a) The demand for money decreases during economic expansion.

(b) The demand for money remains constant during economic expansion.

(c) The demand for money increases during economic expansion.

(d) The demand for money is not influenced by economic expansion.

(b) The Precautionary Motive:

17. What does the "Precautionary Motive" for holding money refer to?

(a) Holding money to preserve wealth and protect against uncertainties.

(b) Holding money to take advantage of potential changes in the value of financial assets.

(c) Holding money for speculative purposes.

(d) Holding money to finance day-to-day transactions and purchases.

18. According to the Precautionary Motive, what happens to the demand for money when individuals become more risk-averse?

(a) The demand for money increases.

(b) The demand for money decreases.

(c) The demand for money remains unchanged.

(d) The demand for money is solely determined by changes in the money supply.

19. How does the Precautionary Motive explain the preference for holding money in liquid form?

(a) People prefer to hold money as it generates interest income.

(b) People prefer to hold money to preserve wealth.

(c) People prefer to hold money for speculative purposes.

(d) People prefer to hold money to avoid the risk of illiquidity.

20. Which of the following situations would lead to an increase in the demand for money due to the Precautionary Motive?

(a) A decrease in the level of economic uncertainty.

(b) An increase in the availability of credit facilities.

(c) An increase in disposable income.

(d) An increase in economic stability.

21. How does the Precautionary Motive influence the allocation of wealth between money and other financial assets?

(a) It encourages a higher allocation of wealth to money.

(b) It encourages a lower allocation of wealth to money.

(c) It has no impact on the allocation of wealth.

(d) It leads to unpredictable changes in wealth allocation.

22. According to the Precautionary Motive, how does the level of economic uncertainty affect the demand for money?

(a) An increase in economic uncertainty leads to an increase in the demand for money.

(b) An increase in economic uncertainty leads to a decrease in the demand for money.

(c) The level of economic uncertainty has no impact on the demand for money.

(d) The demand for money is solely determined by changes in the money supply.

23. Which of the following is an example of the Precautionary Motive for holding money?

(a) Investing in stocks to earn capital gains.

(b) Keeping money in a savings account to earn interest.

(c) Holding cash for emergency medical expenses.

(d) Speculating on the future price of gold.

24. How does the Precautionary Motive relate to the demand for money during periods of economic uncertainty?

(a) The demand for money decreases during economic uncertainty.

(b) The demand for money remains constant during economic uncertainty.

(c) The demand for money increases during economic uncertainty.

(d) The demand for money is not influenced by economic uncertainty.

(c) The Speculative Demand for Money:

25. What does the "Speculative Demand for Money" refer to?

(a) Holding money to preserve wealth and protect against uncertainties.

(b) Holding money to take advantage of potential changes in the value of financial assets.

(c) Holding money for day-to-day transactions and purchases.

(d) Holding money to avoid the risk of illiquidity.

26. According to the Speculative Demand for Money, what happens to the demand for money when individuals expect interest rates to rise in the future?

(a) The demand for money increases.

(b) The demand for money decreases.

(c). The demand for money remains unchanged.

(d) The demand for money is solely determined by changes in the money supply.

27. How does the Speculative Demand for Money explain the preference for holding money in liquid form?

(a) People prefer to hold money as it generates interest income.

(b) People prefer to hold money to preserve wealth.

(c) People prefer to hold money for speculative purposes.

(d) People prefer to hold money to avoid the risk of illiquidity.

28. Which of the following situations would lead to an increase in the demand for money due to the Speculative Demand for Money?

(a) Expectations of a decrease in interest rates.

(b) Expectations of a decrease in the value of financial assets.

(c) Expectations of a decrease in inflation.

(d) Expectations of an economic boom.

29 How does the Speculative Demand for Money influence the allocation of wealth between money and other financial assets?

(a) It encourages a higher allocation of wealth to money.

(b) It encourages a lower allocation of wealth to money.

(c) It has no impact on the allocation of wealth.

(d) It leads to unpredictable changes in wealth allocation.

30. According to the Speculative Demand for Money, how does the level of confidence in financial markets affect the demand for money?

(a) An increase in confidence leads to an increase in the demand for money.

(b) An increase in confidence leads to a decrease in the demand for money.

(c) The level of confidence has no impact on the demand for money.

(d) The demand for money is solely determined by changes in the money supply.

31 Which of the following is an example of the Speculative Demand for Money?

(a) Investing in a high-interest savings account.

(b) Holding cash for emergency medical expenses.

(c) Holding money in anticipation of a stock market rally.

(d) Keeping money in a checking account for day-to-day expenses.

32 How does the Speculative Demand for Money relate to the demand for money during periods of economic optimism?

(a) The demand for money decreases during economic optimism.

(b) The demand for money remains constant during economic optimism.

(c) The demand for money increases during economic optimism.

(d) The demand for money is not influenced by economic optimism.

1.4 - Post-Keynesian Developments in the Theory of Demand for Money

1. **What are the key Post-Keynesian developments in the theory of demand for money?**
   (a) Quantity Theory of Money and Fisher's Equation of Exchange,
   (b) Cambridge Approach and Keynesian Liquidity Preference Theory.
   (c) Speculative Demand for Money and Transactions Demand for Money.
   (d) Endogenous Money Theory and Horizontalist Theory.

2. **How does the Post-Keynesian approach differ from the Keynesian Theory of Demand for Money?**
   (a) Post-Keynesian approach focuses on the speculative motive, while Keynesian Theory emphasizes the transactions motive.
   (b) Post-Keynesian approach emphasizes the speculative motive, while Keynesian Theory focuses on the precautionary motive.
   (c) Post-Keynesian approach considers money supply as endogenous, while Keynesian Theory treats it as exogenous.
   (d) Post-Keynesian approach considers money supply as exogenous, while Keynesian Theory treats it as endogenous.

3. **According to the Post-Keynesian view, how does the demand for money relate to the interest rate?**
   (a) There is a positive relationship between the demand for money and the interest rate.
   (b) There is a negative relationship between the demand for money and the interest rate.
   (c) The demand for money is not influenced by changes in the interest rate.
   (d) The demand for money is solely determined by changes in the money supply.

4. **How does the Post-Keynesian approach view the role of banks in the money creation process?**
   (a) Banks play a passive role and cannot influence the money supply.
   (b) Banks can actively control the money supply through their lending decisions.
   (c) Banks are solely responsible for determining the quantity of money in circulation.
   (d) The money supply is determined independently of banks' actions.

5. **According to the Post-Keynesian perspective, what drives the demand for money in an economy?**
(a) Changes in the level of income and interest rates.
(b) Changes in the price level and exchange rates.
(c) Changes in the government's fiscal policy.
(d) Changes in the money supply by the central bank.

6. **Which of the following is a major criticism of the Post-Keynesian view of the demand for money?**
(a) It neglects the importance of interest rates in determining the demand for money.
(b) It overemphasizes the role of banks in the money creation process.
(c) It fails to consider the impact of fiscal policy on money demand.
(d) It lacks empirical evidence to support its claims.

1.4.1 - Inventory Approach to Transaction Balances

1. **What does the Inventory Approach to Transaction Balances refer to?**
(a) Holding money as a precautionary measure to cover future uncertainties.
(b) Holding money to take advantage of potential changes in the value of financial assets.
(c) Holding money to facilitate day-to-day transactions based on the desired frequency of purchases.
(d) Holding money as an inventory to manage cash flows in a business.

2. **According to the Inventory Approach, how does the size of a firm's cash balance relate to the desired level of transactions?**
(a) The cash balance is unrelated to the desired level of transactions.
(b) The cash balance is always equal to the desired level of transactions.
(c) The cash balance is determined by the desired level of transactions.
(d) The cash balance is inversely related to the desired level of transactions.

3. **How does the Inventory Approach explain the opportunity cost of holding cash?**
(a) Holding cash incurs no opportunity cost.
(b) The opportunity cost of holding cash is equal to the interest rate.
(c) The opportunity cost of holding cash is equal to the potential returns from investment.
(d) The opportunity cost of holding cash is equal to the inflation rate.

4. **What is the primary focus of the Inventory Approach in managing transaction balances?**
   (a) Maximizing cash holdings to ensure liquidity at all times.
   (b) Minimizing cash holdings to reduce the opportunity cost.
   (c) Optimizing cash holdings to strike a balance between liquidity and opportunity cost.
   (d) Ignoring cash balances and relying on credit for transactions.

5. **How does the Inventory Approach view the holding of marketable securities as part of transaction balances?**
   (a) Marketable securities are considered part of the firm's cash balance.
   (b) Marketable securities are seen as a separate investment category unrelated to transaction balances.
   (c) Marketable securities are considered part of the firm's inventory of goods for sale.
   (d) Marketable securities are viewed as a liability for the firm.

6. **Which of the following factors would influence a firm's desired level of transaction balances according to the Inventory Approach?**
   (a) The firm's long-term investment plans.
   (b) The firm's dividend payout ratio.
   (c) The firm's credit rating.
   (d) The firm's average transaction size and frequency.

1.4.2 - Friedman's Restatement of the Quantity Theory

1. **What is the key proposition of Friedman's Restatement of the Quantity Theory of Money?**
   (a) Money supply has a significant impact on aggregate demand and economic output.
   (b) Inflation is primarily determined. by changes in the money supply.
   (c) Velocity of money is constant in the long run.
   (d) Fiscal policy is more effective than monetary policy in stabilizing the economy.

2. **According to Friedman, what role does velocity of money play in the Quantity Theory of Money?**
   (a) Velocity of money is constant and has no impact on inflation.
   (b) Velocity of money is volatile and leads to frequent changes in inflation.

(c) Velocity of money is a key determinant of inflation.
(d) Velocity of money is irrelevant in explaining inflation.

3. **According to Friedman, what is the primary cause of business cycles?**
(a) Fluctuations in government spending.
(b) Changes in aggregate demand due to money supply changes.
(c) Shocks in the financial markets.
(d) Technological advancements.

4. **How does Friedman view the role of monetary policy in controlling inflation?**
(a) Monetary policy is ineffective in controlling inflation.
(b) Monetary policy is the primary tool to control inflation.
(c) Fiscal policy is more effective than monetary policy in controlling inflation.
(d) Controlling inflation is beyond the scope of monetary policy.

5. **What is the main criticism of Friedman's Restatement of the Quantity Theory of Money?**
(a) It ignores the impact of fiscal policy on the economy.
(b) It assumes that velocity of money is constant, which is not always the case.
(c) It does not consider the role of financial markets in influencing inflation.
(d) It underestimates the importance of changes in the money supply on inflation.

6. **How does Friedman's Restatement view the long-run effects of changes in the money supply?**
(a) Changes in the money supply have long-lasting effects on inflation and output.
(b) Changes in the money supply have short-term effects on inflation and output.
(c) Changes in the money supply have no impact on inflation and output in the long run.
(d) Changes in the money supply have no impact on inflation but affect output in the long run.

1.4.3 - The Demand for Money as Behaviour toward Risk

1. **What does the "Demand for-Money as Behavior toward Risk" refer to**
(a) Holding money as a precautionary measure to cover future uncertainties.
(b) Holding money to take advantage of potential changes in the value of financial assets.
(c) Holding money based on risk aversion and the desire to avoid holding risky assets.
(d) Holding money as an inventory to manage cash flows in a business.

2. **According to the Demand for Money as Behavior toward Risk, what happens to the demand for money when individuals become more risk-averse?**
   (a) The demand for money increases.
   (b) The demand for money decreases.
   (c) The demand for money remains unchanged.
   (d) The demand for money is solely determined by changes in the money supply.

3. **How does the Demand for Money as Behavior toward Risk explain the preference for holding money in liquid form?**
   (a) People prefer to hold money as it generates interest income.
   (b) People prefer to hold money to preserve wealth.
   (c) People prefer to hold money for speculative purposes.
   (d) People prefer to hold money to avoid the risk of illiquidity.

4. **Which of the following situations would lead to an increase in the demand for money due to the Demand for Money as Behavior toward Risk?**
   (a) An increase in economic stability.
   (b) A decrease in the availability of credit facilities.
   (c) A decrease in disposable income.
   (d) A decrease in the perceived level of financial risk.

5. **How does the Demand for Money as Behavior toward Risk influence the allocation of wealth between money and other financial assets?**
   (a) It encourages a higher allocation of wealth to money
   (b) It encourages a lower allocation of wealth to money.
   (c) It has no impact on the allocation of wealth.
   (d) It leads to unpredictable changes in wealth allocation.

6. **According to the Demand for Money as Behavior toward Risk, how does the level of economic uncertainty affect the demand for money?**
   (a) An increase in economic uncertainty leads to an increase in the demand for money.
   (b) An increase in economic uncertainty leads to a decrease in the demand for money.
   (c) The level of economic uncertainty has no impact on the demand for money.
   (d) The demand for money is solely determined by changes in the money supply.

Additional Question Bank

1.1 - Introduction

1. **The demand for money arises primarily from its function as a:**
   (a) Store of value (b) Medium of exchange
   (c) Unit of account (d) Commodity

2. **According to the quantity theory of money, the demand for money is directly proportional to:**
   (a) The price level (b) The rate of inflation
   (c) The level of real income (d) The interest rate

3. **he Keynesian theory of money demand suggests that the demand for money is influenced by:**
   (a) The money supply (b) The interest rate
   (c) Consumer confidence (d) Government expenditure

4. **The speculative motive for holding money is based on the expectation of:**
   (a) High interest rates in the future (b) Low inflation rates
   (c) A decrease in the money supply (d) A rise in asset prices

5. **The transaction motive for holding money is related to the need for money to conduct:**
   (a) Speculative investments (b) Everyday transactions and payments
   (c) International trade (d) Long-term savings

1.2 - The Demand for Money

1. **The demand for money is a function of:**
   (a) The money supply (b) The interest rate
   (c) The inflation rate (d) All of the above

2. **The demand for money for transactions is influenced by:**
   (a) Future expectations of interest rates
   (b) Consumer preferences for holding money
   (c) The level of income and economic activity
   (d) Speculative investments

3. **The precautionary motive for holding money arises from the need to:**
(a) Conduct day-to-day transactions (b) Make speculative investments
(c) Save for future emergencies and uncertainties (d) Avoid inflation

4. **According to the Keynesian theory, an increase in the interest rate will lead to:**
(a) An increase in the demand for money
(b) A decrease in the demand for money
(c) No change in the demand for money
(d) An increase in the money supply

5. **The speculative motive for holding money is driven by expectations of:**
(a) High inflation rates (b) Low interest rates in the future
(c) A decrease in the money supply (d) Economic stability

1.3 - Theories of Demand for Money

1. **The classical quantity theory of money suggests that the demand for money is primarily influenced by:**
(a) The interest rate (b) The level of income
(c) Future expectations of inflation. (d) Government policies

2. **According to the Keynesian theory of money demand, the demand for money is mainly influenced by:**
(a) The interest rate (b) The level of income and economic activity
(c) Future expectations of inflation (d) Government expenditure

3. **The speculative demand for money is based on the expectation of:**
(a) High interest rates in the future (b) Low inflation rates
(c) A decrease in the money supply (d) High economic growth

4. **The precautionary demand for money arises due to the need to hold money for:**
(a) Everyday transactions (b) Speculative investments
(c) Emergency purposes and uncertainties (d) Tax payments

5. **The "Baumol-Tobin model" of money demand suggests that people will try to minimize the:**

(a) Opportunity cost of holding money

(b) Inflation rate

(c) Government intervention in the economy

(d) Transaction costs of converting assets into money

1.4 - Post-Keynesian Developments in the Theory of Demand for Money

1. **Post-Keynesian economists argue that the demand for money is primarily determined by:**

(a) The interest rate (b) The level of income and economic activity

(c) Future expectations of inflation (d) Government policies

2. **According to post-Keynesian views, the speculative demand for money is related to people's desire to:**

(a) Hold liquid assets for convenience (b) Invest in stocks and bonds

(c) Avoid holding money due to inflation (d) Minimize transaction costs

3. **In the post-Keynesian approach, the precautionary demand for money is driven by the need to have sufficient funds for:**

(a) Speculative purposes (b) Everyday transactions

(c) Emergency situations and uncertainties (d) Long-term savings

4. **Post-Keynesian economists argue that the demand for money can be affected by changes in:**

(a) Government expenditures (b) The money supply

(c) Interest rates (d) All of the above

5. **The liquidity preference theory, developed by John Maynard Keynes, emphasizes that the demand for money depends on:**

(a) The nominal interest rate (b) The real interest rate

(c) Future expectations of inflation (d) Both (a) and (b)

1.4.1 - Inventory Approach to Transaction Balances

1. The inventory approach to transaction balances suggests that the demand for money is influenced by:

(a) The interest rate

(b) The level of income and economic activity

(c) The cost of holding money and the cost of converting other assets into money

(d) Future expectations of inflation,

2. According to the inventory approach, individuals and firms hold money to:

(a) Speculate on future interest rates

(b) Facilitate transactions for goods and services

(c) Invest in financial markets

(d) Avoid taxes

3. The inventory approach to transaction balances suggests that an increase in the cost of converting assets into money will lead to:

(a) An increase in the demand for money

(b) A decrease in the demand for money

(c) No change in the demand for money

(d) An increase in the velocity of money

4. In the inventory approach, the decision to hold money is based on a trade-off between the benefits of liquidity and the:

(a) Risk of inflation
(b) Opportunity cost of holding money

(c) Government interventions in the economy
(d) Exchange rate fluctuations

5. The inventory approach to transaction balances is often used to explain:

(a) The demand for money in developing economies

(b) The demand for money in advanced economies

(c) The impact of government policies on money demand

(d) The relationship between money supply and interest rates

1.4.2 - Friedman's Restatement of the Quantity Theory

1. **Milton Friedman's restatement of the quantity theory of money emphasized that the demand for money depends on:**
   (a) The level of income and economic activity
   (b) The interest rate
   (c) Future expectations of inflation.
   (d) Both (a) and (b)

2. **According to Friedman, changes in the quantity of money affect:**
   (a) Interest rates only
   (b) Price levels only
   (c) Both interest rates and price levels
   (d) Exchange rates

3. **Friedman's restatement suggested that in the long run, changes in the quantity of money primarily influence:**
   (a) Real economic variables such as output and employment
   (b) Nominal economic variables such as the price level
   (c) Government fiscal policies
   (d) International trade and capital flows

4. **Friedman argued that central banks should focus on:**
   (a) Controlling the money supply to stabilize the economy
   (b) Manipulating interest rates to influence investment
   (c) Implementing exchange rate policies to boost exports
   (d) Directly managing government expenditures and taxation

5. **According to Friedman, excessive inflation is primarily caused by:**
   (a) An increase in government spending
   (b) Excessive growth in the money supply
   (c) Fluctuations in exchange rates
   (d) A decrease in interest rates

1.4.3 - The Demand for Money as Behaviour toward Risk

1. **The demand for money as behavior toward risk suggests that individuals may hold more money when they:**
   (a) Have higher income levels
   (b) Expect future inflation
   (c) Perceive higher uncertainty or risk in the economy
   (d) Expect interest rates to decrease

2. **In the context of the demand for money as behavior toward risk, holding money provides individuals with a sense of:**

(a) Liquidity and flexibility (b) Long-term investment opportunities

(c) Tax advantages (d) Higher returns compared to other assets

3. **According to the demand for money as behavior toward risk, during times of economic instability or crisis, people tend to:**

(a) Increase their spending (b) Invest more in the stock market

(c) Hold more money as a safe asset (d) Borrow heavily from banks

4. **The demand for money as behavior toward risk is closely related to the concept of:**

(a) Risk aversion (b) Speculative motives

(c) Precautionary motives (d) Money multipliers

5. **As a risk-averse individual expects higher uncertainty in the future, the demand for money:**

(a) Increases

(b) Decreases

(c) Remains constant

(d) Becomes dependent on government policies

ANSWERS (Unit 1):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	D	4.	C	5.	A
6.	C	7.	C	8.	A	9.	C	10.	D
11.	D	12.	B	13.	D	14.	C	15.	D
16.	C								

1.2 – The Demand for Money

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	C	4.	A	5.	C
6.	A	7.	D	8.	B				

1.3 – Theories of Demand for Money

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	A	4.	B	5.	B
6.	B	7.	B	8.	A				

1.3.1 – Classical Approach: The Quantity Theory of Money (QTM)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	B	4.	C	5.	C
6.	B	7.	A	8.	A				

1.3.2 – The Cambridge approach

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	A	5.	D
6.	C	7.	C	8.	A				

1.3.3 – The Keynesian Theory of Demand for Money

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	D	3.	A	4.	B	5.	D
6.	B	7.	B	8.	A	9.	D	10.	B
11.	D	12.	B	13.	A	14.	A	15.	C
16.	C	17.	A	18.	A	19.	D	20.	B
21.	A	22.	A	23.	C	24.	C	25.	B
26.	B	27.	C	28.	B	29.	A	30.	B
31.	C	32.	A						

1.4 – Post-Keyneslan Developments in the Theory of Demand for Money

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	B	4.	B	5.	A
6.	D								

1.4.1 – Inventory Approach to Transaction Balances

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	C	4.	C	5.	A
6.	D								

1.4.2 – Friedman's Restatement of the Quantity Theory

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	A	5.	B
6.	C								

1.4.3 – The Demand for Money as Behaviour toward Risk

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	D	4.	D	5.	A
6.	A								

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	A	5.	B

1.2 – The Demand for Money

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	C	4.	B	5.	B

1.3 – Theories of Demand for Money

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	A	4.	C	5.	A

1.4 – Post-Keyneslan Developments in the Theory of Demand for Money

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	D	5.	D

1.4.1 – Inventory Approach to Transaction Balances

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	A	4.	B	5.	B

1.4.2 – Friedman's Restatement of the Quantity Theory

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	B	4.	A	5.	B

1.4.3 – The Demand for Money as Behaviour toward Risk

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	C	4.	A	5.	A

Unit 2: The Concept of Money Supply

1.1 - Introduction

1. **What is the concept of "money supply" in economics?**
   (a) The total amount of money held by an individual or household
   (b) The total amount of money in circulation within an economy at a specific point in time.
   (c) The total amount of money that a government can print to finance its expenditures.
   (d) The total amount of money invested in financial assets, such as stocks and bonds.

2. **Which of the following is considered "M1" in the classification of money supply?**
   (a) Currency held by the public and demand deposits with banks
   (b) Currency held by the public and time deposits with banks.
   (c) Currency held by the public, time deposits with banks, and savings deposits.
   (d) Currency held by the public, demand deposits with banks, and time deposits.

3. **"M2" in the classification of money supply includes:**
   (a) Currency held by the public and demand deposits with banks
   (b) Currency held by the public, demand deposits with banks, and deposits.
   (c) Currency held by the public, time deposits with banks, and savings deposits.
   (d) Currency held by the public, demand deposits with banks, and time deposits, along with certain money market instruments.

4. **"M3" in the classification of money supply includes:**
   (a) Currency held by the public, demand deposits with banks, and time deposits.
   (b) Currency held by the public, demand deposits with banks, and time deposits, along with certain money market instruments.
   (c) Currency held by the public, time deposits with banks, and savings deposits, along with certain money market instruments.
   (d) Currency held by the public, demand deposits with banks, time deposits, and savings deposits, along with certain money market instruments.

5. **"Liquidity" in the context of money supply refers to:**
(a) The ease with which financial assets can be converted into money without loss of value.
(b) The total amount of money in circulation within an economy.
(c) The ability of banks to lend money to the government.
(d) The amount of money that individuals and firms hold in their savings accounts.

6. **How does an increase in the money supply affect inflation, according to the Quantity Theory of Money?**
(a) An increase in the money supply leads to deflation.
(b) An increase in the money supply has no impact on inflation.
(c) An increase in the money supply leads to inflation.
(d) An increase in the money supply causes stagflation.

7. **What is M1 in the measurement of money supply?**
(a) The narrowest measure of money supply, including only physical currency.
b) The broadest measure of money supply, including all liquid assets and time deposits.
(c) The measure of money supply used. by central banks for monetary policy.
(d) The total value of goods and services produced in an economy.

8. **Which of the following is considered a component of M2 in the measurement of money supply?**
(a) Physical currency (coins and notes) in circulation.
(b) Demand deposits (checking accounts) held by the public.
(c) Time deposits (fixed deposits) with commercial banks.
(d) Treasury bills and government bonds.

9. **How does an increase in the money supply affect inflation, according to monetary theory?**
(a) An increase in the money supply causes deflation.
(b) An increase in the money supply has no effect on inflation.
(c) An increase in the money supply leads to higher inflation.
(d) An increase in the money supply reduces economic growth.

10. **What role does the central bank play in controlling the money supply?**
(a) The central bank has no control over the money supply.
(b) The central bank can directly control the money supply through its policies.
(c) The central bank can indirectly influence the money supply through interest rate adjustments.
(d) The central bank can control only the currency component of the money supply.

11. **Which measure of money supply is the most comprehensive and includes all liquid assets?**
(a) M0 (b) M1 (c) M2 (d) M3

1.2 - Rationale of Measuring Money Supply

1. **Why is it important for economists and policymakers to measure the money supply in an economy?**
(a) To determine the total value of goods and services produced in the economy.
(b) To assess the overall level of economic growth and development.
(c) To understand the availability of credit and loans for businesses and individuals.
(d) To monitor the effectiveness of monetary policy and its impact on inflation and economic stability.

2. **Which component of the money supply is the most liquid and serves as the medium of exchange in day-to-day transactions?**
(a) Physical currency (coins and notes) in circulation.
(b) Demand deposits (checking accounts) held by the public.
(c) Time deposits (fixed deposits) with commercial banks.
(d) Government bonds and securities.

3. **How does measuring the money supply help in assessing the liquidity of an economy?**
(a) A higher money supply indicates higher liquidity.
(b) A lower money supply indicates higher liquidity.
(c) Measuring money supply has no relation to assessing liquidity.
(d) Liquidity is solely determined by the availability of credit facilities.

4. **What does the concept of "monetary aggregates" refer to in the measurement of money supply?**

(a) The total value of all financial assets in an economy.

(b) The total value of exports and imports in an economy.

(c) The various measures of money supply used by central banks for policy purposes.

(d) The total value of goods and services produced in an economy.

5. **Why is M1 considered a narrow measure of money supply?**

(a) It includes only physical currency in circulation.

(b) It includes physical currency and demand deposits but excludes time deposits.

(c) It includes physical currency and time deposits but excludes demand deposits.

(d) It includes all components of money supply, including physical currency, demand deposits, and time deposits.

6. **How does measuring the money supply assist in understanding the potential for inflation in an economy?**

(a) A higher money supply indicates lower inflation potential.

(b) A lower money supply indicates lower inflation potential.

(c) Measuring money supply has no relation to understanding inflation potential.

(d) The potential for inflation is solely determined by fiscal policy.

7. **Why is it important to measure the money supply in an economy?**

(a) To track changes in the stock market.

(b) To assess the overall health of the financial sector.

(c) To understand the level of economic activity and inflationary pressures.

(d) To determine the fiscal deficit of the government.

8. **Which of the following components is typically included in the measurement of M1 money supply?**

(a) Time deposits with commercial banks.

(b) Treasury bills and government bonds.

(c) Physical currency (coins and notes) in circulation.

(d) Foreign currency held by the central bank.

9. **Which measure of money supply is more comprehensive and includes M1 plus time deposits with commercial banks?**
   (a) M0 (b) M1 (c) M2 (d) M3

10. **What is the primary objective of measuring money supply from the perspective of monetary policy?**
    (a) To determine the fiscal deficit of the government.
    (b) To assess the overall health of the financial sector.
    (c) To track changes in the stock market.
    (d) To guide the formulation and implementation of monetary policy.

11. **Why is the measurement of money supply considered essential for conducting monetary policy?**
    (a) It helps central banks predict future changes in the stock market.
    (b) It provides insights into consumer spending patterns.
    (c) It allows central banks to control inflation and stabilize the economy.
    (d) It assists central banks in managing the fiscal deficit of the government.

12. **What does MO represent in the measurement of money supply?**
    (a) The narrowest measure of money supply, including only physical currency.
    (b) The broadest measure of money supply, including all liquid assets and time deposits.
    (c) The measure of money supply used by central banks for monetary policy.
    (d) The total value of goods and services produced in an economy.

1.3 - The Sources of Money Supply

1. **Which of the following is NOT considered a source of money supply in an economy?**
   (a) Physical currency issued by the central bank.
   (b) Demand deposits held by commercial banks.
   (c) Government bonds and treasury bills.
   (d) Foreign currency reserves held by the central bank.

2. **The primary source of money supply in an economy is:**
(a) Physical currency held by the public.
(b) Currency issued by commercial banks.
(c) Foreign currency reserves held by the central bank.
(d) Demand deposits held by commercial banks.

3. **Which of the following is considered a component of the monetary base, also known as MO?**
(a) Demand deposits held by the public.
(b) Time deposits with commercial banks.
(c) Physical currency (coins and notes) in circulation.
(d) Government securities.

4. **What role does the central bank play in controlling the money supply?**
(a) The central bank has no control over the money supply.
(b) The central bank can directly control the money supply through its policies.
(c) The central bank can indirectly influence the money supply through interest rate adjustments.
(d) The central bank can control only the currency component of the money supply.

5. **What happens to the money supply when commercial banks increase their lending activities?**
(a) The money supply decreases. (b) The money supply remains unchanged.
(c) The money supply increases. (d) The money supply fluctuates randomly.

6. **Which of the following assets held by commercial banks is a component of the money supply?**
(a) Government bonds. (b) Corporate stocks.
(c) Treasury bills. (d) Demand deposits.

7. **Which of the following components is included in the narrowest measure of money supply (MO)?**
(a) Demand deposits (checking accounts) in commercial banks.
(b) Time deposits (fixed deposits) with commercial banks.
(c) Physical currency (coins and notes) in circulation.
(d) Foreign currency reserves held by the central bank.

8. **Which source of money supply represents the reserves held by commercial banks with the central bank?**
(a) Currency held by the public. (b) Demand deposits.
(c) Bank reserves. (d) Time deposits.

9. **How does the central bank influence the money supply in the economy?**
(a) By controlling the government's budget deficit.
(b) By adjusting interest rates and conducting open market operations.
(c) y directly printing and issuing physical currency.
(d) By regulating foreign currency transactions.

10. **Which component of money supply represents the deposits that individuals and businesses can withdraw on demand without any notice?**
(a) Time deposits (fixed deposits). (b) Savings deposits.
(c) Demand deposits (checking accounts). (d) Foreign currency reserves.

11. **What is the role of the government in determining the money supply?**
(a) The government directly controls the money supply by printing physical currency.
(b) The government regulates the flow of foreign currency into the country.
(c) The government sets the reserve requirements for commercial banks.
(d) The government influences the money supply through its fiscal policies and borrowing.

1.4 - Measurement of Money Supply

1. **Which of the following measures of money supply includes physical currency (coins and notes) in circulation and demand deposits with commercial banks?**
(a) M0 (b) M1 (c) M2 (d) M3

2. **Which component is included in M2 but not in M1 in the measurement of money supply?**
(a) Physical currency (coins and notes) in circulation.
(b) Time deposits (fixed deposits) with commercial banks.
(c) Demand deposits (checking accounts) held by the public.
(d) Foreign currency reserves held by the central bank.

3. What does MO represent in the measurement of money supply?

(a) The narrowest measure of money supply, including only physical currency.

(b) The broadest measure of money supply, including all liquid assets and time deposits.

(c) The measure of money supply used by central banks for monetary policy.

(d) The total value of goods and services produced in an economy.

4. Which of the following components is typically included in the measurement of M1 money supply?

(a) Time deposits with commercial banks.

(b) Treasury bills and government bonds.

(c) Physical currency (coins and notes) in circulation.

(d) Foreign currency reserves held by the central bank.

5. What is the primary objective of measuring money supply from the perspective of monetary policy?

(a) To determine the fiscal deficit of the government.

(b) To assess the overall health of the financial sector.

(c) To track changes in the stock market.

(d) To guide the formulation and implementation of monetary policy.

6. How does the central bank influence the money supply in the economy?

(a) By controlling the government's budget deficit.

(b) By adjusting interest rates and conducting open market operations.

(c) By directly printing and issuing physical currency.

(d) By regulating foreign currency transactions.

1.5 - Determinants of Money Supply

1. Which of the following is NOT a determinant of money supply in an economy?

(a) Monetary policy decisions of the central bank.

(b) Reserve requirements set by the central bank.

(c) Fiscal policy decisions of the government.

(d) Open market operations conducted by commercial banks.

2. When the central bank reduces the reserve requirements for commercial banks, it will likely lead to:

(a) An increase in the money supply.
(b) A decrease in the money supply.
(c) No change in the money supply.
(d) An increase in the interest rates.

3. The main tool used by the central bank to directly control the money supply is:

(a) Setting interest rates.
(b) Conducting open market operations.
(c) Adjusting reserve requirements.
(d) Printing physical currency.

4. Which of the following is an example of an expansionary monetary policy that increases the money supply?

(a) Raising the reserve requirements for commercial banks.
(b) Selling government securities in the open market.
(c) Lowering interest rates.
(d) Decreasing government spending.

5. The government's budget deficit can indirectly impact the money supply through its effect on:

(a) The level of economic growth.
(b) The exchange rate of the national currency.
(c) Inflation rate.
(d) Central bank's open market operations.

6. In a fractional reserve banking system, the money supply is affected by:

(a) The total amount of physical currency in circulation.
(b) The proportion of deposits held as reserves by commercial banks.
(c) The rate of inflation.
(d) The government's fiscal policy.

7. Which of the following is NOT a determinant of money supply in an economy?

(a) The monetary policy set by the central bank.
(b) The level of government spending and fiscal policy.
(c) The demand for money by the public.
(d) The rate of inflation in the economy.

8. **The primary determinant of money supply in an economy is:**
(a) The demand for money by the public.
(b) The level of government spending.
(c) The monetary policy conducted by the central bank.
(d) The rate of economic growth.

9. **When the central bank increases the reserve requirements for commercial banks, it will likely result in:**
(a) An increase in money supply.
(b) A decrease in money supply.
(c) No change in money supply.
(d) A decrease in interest rates.

10. **How does the central bank use open market operations to affect money supply?**
(a) By printing and issuing new currency.
(b) By buying or selling government securities in the open market.
(c) By controlling the government's budget deficit.
(d) By setting interest rates for commercial banks.

11. **The demand for money in an economy is influenced by:**
(a) The monetary policy set by the central bank.
(b) The rate of inflation and price level.
(c) The level of government spending.
(d) The fiscal policy conducted by the government.

12. **How does an increase in economic activity affect the demand for money?**
(a) It decreases the demand for money.
(b) It increases the demand for money.
(c) It has no effect on the demand for money.
(d) It leads to a decrease in money supply.

1.6 - The Concept of Money Multiplier

1. **The money multiplier is defined as:**
(a) The rate at which the central bank prints new currency notes.
(b) The ratio of money supply to the reserve requirements set by the central bank.
(c) The ratio of the change in money supply to the change in interest rates.
(d) The rate at which commercial banks create new money through lending.

2. **How is the money multiplier calculated?**
   (a) Money Multiplier = Change in Money Supply / Change in Interest Rates.
   (b) Money Multiplier = Reserve Ratio / Money Supply.
   (c) Money Multiplier = 1 / Reserve Ratio.
   (d) Money Multiplier = Change in Money Supply / Change in Reserve Ratio.

3. **What happens to the money multiplier if the reserve requirements set by the central bank increase?**
   (a) The money multiplier increases. (b) The money multiplier decreases.
   (c) The money multiplier remains unchanged. (d) The money multiplier becomes zero.

4. **If the reserve ratio is 10%, what is the money multiplier?**
   (a) 1.10. (b) 10 (c) 0.10 (d) 0.90

5. **The money multiplier process can lead to:**
   (a) An increase in the money supply and economic growth.
   (b) A decrease in the money supply and economic contraction.
   (c) Inflation and higher interest rates.
   (d) A decrease in the reserve ratio.

6. **What is the relationship between the reserve ratio and the money multiplier?**
   (a) They have a direct relationship.
   (b) They have an inverse relationship.
   (c) They are unrelated and independent concepts.
   (d) The reserve ratio is a component of the money multiplier.

7. **The concept of the money multiplier is based on the idea that:**
   (a) The central bank can directly control the money supply.
   (b) The commercial banks can create money through lending activities.
   (c) The government can print and issue new currency as needed.
   (d) The demand for money is influenced by changes in interest rates.

8. **The money multiplier formula is defined as:**
   (a) Change in money supply = Change in reserves x Reserve Ratio.
   (b) Change in reserves = Change in money supply x Reserve Ratio.
   (c) Change in money supply = Change in interest rates x Reserve Ratio.
   (d) Change in reserves = Change in interest rates x Reserve Ratio.

9. **The reserve ratio is defined as:**
   (a) The total amount of money held by the central bank.
   (b) The total amount of money held by the government.
   (c) The ratio of commercial bank reserves to total deposits.
   (d) The ratio of currency in circulation to total money supply.

10. **If the reserve ratio is 10%, and the central bank injects $1,000 of new reserves into the banking system, the potential maximum increase in the money supply will be:**
    (a) $100 (b) $1,000 (c) $10,000 (d) $100,000

11. **The money multiplier process can lead to:**
    (a) An increase in the money supply. (b) A decrease in the money supply.
    (c) No change in the money supply. (d) An increase in interest rates.

12. **What happens to the money multiplier and potential money supply expansion if the reserve ratio increases?**
    (a) The money multiplier decreases, and potential money supply expansion decreases.
    (b) The money multiplier increases, and potential money supply expansion increases.
    (c) The money multiplier decreases, and potential money supply expansion increases.
    (d) The money multiplier increases, and potential money supply expansion decreases.

1.7 - The Money Multiplier Approach to Supply of Money

1. **The Money Multiplier Approach to the supply of money focuses on:**
   (a) The direct control of money supply by the central bank.
   (b) The ability of commercial banks to create money through lending activities. Download
   (c) The impact of government spending on the money supply.
   (d) The relationship between money supply and interest rates.

2. **The key determinant of the potential money supply expansion through, the Money Multiplier Approach is:**
   (a) The level of government spending.
   (b) The interest rates set by the central bank.
   (c) The reserve ratio set by the central bank.
   (d) The exchange rate of the domestic currency.

3. **If the reserve ratio is 20%, what is the maximum potential money supply expansion if the central bank injects $1,000 of new reserves into the banking system?**
   (a) $1,000 (b) $2,000 (c) $5,000 (d) $10,000

4. **If the central bank wishes to reduce the money supply, it can:**
   (a) Decrease the reserve ratio. (b) Increase the reserve ratio.
   (c) Decrease the discount rate. (d) Increase the discount rate.

5. **The Money Multiplier Approach assumes that:**
   (a) The central bank directly controls the money supply.
   (b) Commercial banks do not lend out their excess reserves.
   (c) The velocity of money is constant.
   (d) The demand for money is determined by the interest rate.

6. **The Money Multiplier Approach to the supply of money is most applicable in a situation where:**
   (a) The central bank has strict control over the money supply.
   (b) Commercial banks have limited lending activities.
   (c) The economy is experiencing high inflation.
   (d) There are no significant changes in the demand for money.

7. **In the context of the Money Multiplier Approach, the reserve ratio refers to:**
   (a) The ratio of currency to total money supply.
   (b) The ratio of commercial bank reserves to total deposits.
   (c) The ratio of government spending to GDP.
   (d) The ratio of public debt to GDP.

8. **The formula for calculating the money multiplier in India is:**
   (a) Money Multiplier = Reserve Ratio / Currency Deposit Ratio.
   (b) Money Multiplier = 1 / Reserve Ratio.
   (c) Money Multiplier = 1 + Reserve Ratio.
   (d) Money Multiplier = 1 - Reserve Ratio.

9. **If the reserve ratio in India is 0.1 (10%), what is the money multiplier?**
   (a) 0.1 (b) 1 (c) 10 (d) 100

10. **Suppose the central bank of India reduces the reserve ratio from 0.12 to 0.08. How will this impact the money supply?**
   (a) The money supply will increase. (b) The money supply will decrease.
   (c) The money supply will remain unchanged. (d) The money supply will fluctuate.

11. **Which of the following factors could limit the effectiveness of the money multiplier approach in determining the money supply in India?**
   (a) The level of government spending and fiscal policy.
   (b) The demand for money by the public.
   (c) The central bank's control over the money supply.
   (d) The availability of excess reserves in the banking system.

<u>(a) The Behaviour of the Central Bank</u> -

12. **The primary objective of the central bank in India is to:**
   (a) Control the money supply and inflation.
   (b) Regulate the stock market and financial institutions.
   (c) Control government spending and fiscal policy.
   (d) Promote international trade and investment.

13. **Which of the following tools does the central bank of India use to control the money supply?**
   (a) Setting interest rates on government bonds.
   (b) Conducting open market operations.
   (c) Setting limits on government spending.
   (d) Regulating foreign exchange rates.

14. The central bank's control over the money supply can impact the economy by:

(a) Influencing economic growth and employment levels.

(b) Controlling international trade and tariffs.

(c) Determining the level of government debt.

(d) Setting inflation targets for businesses.

15. How does the central bank's behavior influence interest rates in India?

(a) By directly setting interest rates for commercial banks.

(b) By controlling the foreign exchange rates.

(c) By buying or selling government securities in the open market.

(d) By setting limits on international trade...

16. The central bank of India uses monetary policy to:

(a) Control government spending and fiscal policy.

(b) Regulate the stock market and financial institutions.

(c) Control the money supply and inflation.

(d) Set interest rates for foreign investors.

(b) The Behaviour of Commercial Banks -

17. The primary function of commercial banks in India is to:

(a) Control the money supply and inflation.

(b) Facilitate international trade and investment.

(c) Accept deposits from the public and provide loans and advances.

(d) Regulate the stock market and financial institutions.

18. When a commercial bank receives a deposit from a customer, it is recorded as a liability on the bank's balance sheet because:

(a) The bank is obligated to pay interest on the deposit.

(b) The deposit represents a claim on the bank's assets.

(c) The bank can use the deposit to make profitable investments.

(d) The deposit increases the bank's capital reserves.

19. The process by which commercial banks-create new money by making loans is known as:

(a) Fractional reserve banking.
(b) Open market operations.
(c) Monetary policy.
(d) Money multiplier effect.

20. How do commercial banks earn a profit?

(a) By charging interest on loans and paying interest on deposits.
(b) By buying and selling government securities in the open market.
(c) By investing in foreign exchange markets.
(d) By borrowing from the central bank.

21. The Reserve Bank of India (RBI) regulates commercial banks in India. through various measures, including:

(a) Controlling the government's fiscal policy.
(b) Setting interest rates for commercial bank loans.
(c) Regulating foreign exchange rates.
(d) Imposing reserve requirements on banks.

22. What happens if a commercial bank's reserves fall below the required reserve ratio set by the central bank?

(a) The bank can continue to operate normally without any restrictions.
(b) The central bank will lend additional reserves to the bank.
(c) The bank may face penalties and restrictions on lending.
(d) The central bank will lower the reserve ratio for that bank.

(c) The Behaviour of the Public -

23. The public's demand for money is influenced by:

(a) The monetary policy set by the central bank.
(b) The level of government spending and fiscal policy.
(c) The availability of credit facilities from commercial banks.
(d) The rate of inflation and interest rates in the economy.

24. When the central bank increases interest rates, it is likely to impact the behavior of the public by:

(a) Encouraging more borrowing and spending.

(b) Encouraging more saving and reducing spending.

(c) Encouraging more investment in the stock market.

(d) Encouraging more investment in real estate.

25. The public's behavior regarding money and spending can significantly affect the effectiveness of monetary policy set by the central bank. This is known as:

(a) Fiscal policy effectiveness. (b) The money multiplier effect.

(c) The liquidity trap. (d) Monetary policy transmission mechanism.

26. When the public holds a higher proportion of their wealth in the form of money (cash and deposits), it is referred to as:

(a) Liquidity preference. (b) Fiscal responsibility.

(c) Risk aversion. (d) Asset allocation.

27. If the public becomes more confident about the economy's future prospects, it is likely to result in:

(a) An increase in the demand for money.

(b) A decrease in the demand for money.

(c) An increase in spending and investment.

(d) A decrease in savings.

1.8 - Monetary Policy and Money Supply

1. Monetary policy in India is primarily formulated and implemented by:

(a) The Ministry of Finance.

(b) The Securities and Exchange Board of India (SEBI).

(c) The Reserve Bank of India (RBI).

(d) The Planning Commission of India.

2. The main objective of monetary policy in India is to:

(a) Control government spending and fiscal policy.

(b) Regulate the stock market and financial institutions.

(c) Control the money supply and inflation.

(d) Promote international trade and investment.

3. **Open market operations (OMOS) are conducted by the Reserve Bank of India (RBI) to:**

(a) Control the foreign exchange rates. (b) Regulate government spending.

(c) Control the money supply. (d) Facilitate international trade.

4. **The Cash Reserve Ratio (CRR) is the percentage of deposits that banks are required to keep as reserves with the RBI. If the RBI increases the CRR, it is likely to:**

(a) Increase the money supply in the economy.

(b) Decrease the money supply in the economy.

(c) Have no impact on the money supply.

(d) Increase interest rates in the economy.

5. **The Repo Rate is the rate at which the RBI lends money to commercial banks for short periods. If the RBI decreases the Repo Rate, it is likely to:**

(a) Increase borrowing and spending in the economy.

(b) Decrease borrowing and spending in the economy.

(c) Have no impact on borrowing and spending.

(d) Increase the Cash Reserve Ratio (CRR).

6. **Monetary policy is a tool used by the central bank of India to:**

(a) Control the government's fiscal policy.

(b) Regulate foreign trade and exchange rates.

(c) Control the money supply and influence economic activity.

(d) Determine the budget deficit and surplus.

7. **The Reserve Bank of India (RBI) uses various instruments to implement monetary policy. One such instrument is the "Repo Rate." What does the Repo Rate represent?**

(a) The rate at which commercial banks borrow from the RBI.

(b) The rate at which the RBI borrows from commercial banks.

(c) The rate at which the RBI lends to the government.

(d) The rate at which the RBI lends to foreign banks.

8. When the Reserve Bank of India (RBI) wants to increase the money supply and stimulate economic growth, it is likely to:

(a) Raise the Repo Rate,

(b) Lower the Reverse Repo Rate.

(c) Raise the Cash Reserve Ratio (CRR).

(d) Conduct open market sales of government securities.

9. Which of the following tools is used by the Reserve Bank of India (RBI) to directly control the money supply in the economy?

(a) Cash Reserve Ratio (CRR) (b) Repo Rate

(c) Statutory Liquidity Ratio (SLR) (d) Open Market Operations (OMOs)

10. How does a decrease in the Statutory Liquidity Ratio (SLR) affect the money supply in the economy?

(a) It increases the money supply.

(b) It decreases the money supply.

(c) It has no effect on the money supply.

(d) It depends on changes in the Repo Rate.

1.9 - Effect of Government Expenditure on Money Supply

1. When the government of India increases its expenditure and pays for it by borrowing from the banking system, what is the likely impact on the money supply?

(a) The money supply will increase. (b) The money supply will decrease.

(c) The money supply will remain unchanged. (d) The money supply will fluctuate.

2. In India, which of the following tools does the Reserve Bank of India (RBI) use to offset the impact of government expenditure on money supply?

(a) Open market operations. (b) Changes in the Statutory Liquidity Ratio (SLR).

(c) Changes in the Repo Rate. (d) Changes in the Cash Reserve Ratio (CRR).

3. When the government of India reduces its expenditure and the money spent is withdrawn from circulation, what is the likely impact on the money supply?

(a) The money supply will increase. (b) The money supply will decrease:

(c) The money supply will remain unchanged. (d) The money supply will fluctuate.

4. **The government of India increases taxes and reduces public spending simultaneously. What is the likely impact on the money supply?**

(a) The money supply will increase.
(b) The money supply will decrease.
(c) The money supply will remain unchanged.
(d) The money supply will fluctuate.

5. **When the Indian government increases its expenditure on infrastructure projects and welfare programs, the likely impact on the money supply in the economy will be:**

(a) An increase in the money supply.
(b) A decrease in the money supply.
(c) No impact on the money supply.
(d) A fluctuation in the money supply.

6. **The impact of government expenditure on the money supply depends on:**

(a) The level of taxation in the economy.
(b) The extent of borrowing by the government from the central bank.
(c) The government's fiscal deficit.
(d) All of the above.

7. **When the government finances its expenditure through borrowing from the central bank, it is likely to lead to:**

(a) An increase in the money supply.
(b) A decrease in the money supply.
(c) No change in the money supply.
(d) An increase in the government's fiscal deficit.

8. **If the Indian government reduces its expenditure and runs a budget surplus, the impact on the money supply will likely be:**

(a) An increase in the money supply.
(b) A decrease in the money supply.
(c) No change in the money supply.
(d) An increase in government borrowing.

9. **The interaction between government expenditure and the money supply is an essential consideration for:**

(a) Monetary policy implementation by the central bank.
(b) Fiscal policy implementation by the government.
(c) Exchange rate management by the Reserve Bank of India.
(d) Regulation of foreign trade and tariffs.

Additional Question Bank

1.1 - Introduction

1. **Money supply refers to:"**
   (a) The total amount of money held by individuals and businesses
   (b) The total value of goods and services produced in an economy
   (c) The total amount of money printed by the central bank
   (d) The total amount of money held in banks' reserves

2. **Which of the following is considered a component of the money supply in most countries?**
   (a) Government bonds (b) Corporate stocks
   (c) Currency (cash) in circulation (d) Real estate

3. **The money supply includes which of the following types of money?**
   (a) M1, M2, M3 (b) Physical currency only
   (c) Commercial bank reserves (d) Government bonds

4. **M1 money supply includes:**
   (a) Currency (cash) in circulation, demand deposits, and traveler's checks
   (b) Currency (cash) in circulation, time deposits, and savings accounts
   (c) Currency (cash) in circulation, government bonds, and corporate stocks
   (d) Currency (cash) in circulation, foreign exchange reserves, and gold holdings

5. **The central bank has the most direct control over which component of the money supply?**
   (a) M1 (b) M2 (c) M3 (d) M4

1.2 - Rationale of Measuring Money Supply

1. **The primary rationale for measuring money supply is to:**
   (a) Track the profitability of banks
   (b) Monitor the flow of foreign exchange
   (c) Assess the health of the financial system
   (d) Understand the overall liquidity in the economy

2. **Which of the following monetary aggregates includes only the most liquid forms of money?**
(a) M1 (b) M2 (c) M3 (d) M4

3. **The broader measures of money supply, such as M2 and M3, include:**
(a) Only physical currency (cash) in circulation
(b) Currency (cash) in circulation and demand deposits
(c) Currency (cash) in circulation, demand deposits, and time deposits
(d) Currency (cash) in circulation and government bonds

4. **Measuring money supply helps central banks in formulating and implementing:**
(a) Fiscal policies (b) Monetary policies
(c) Trade policies (d) Industrial policies

5. **The rationale for measuring money supply is to provide an indicator of:**
(a) The total value of goods and services produced in an economy
(b) The level of government debt
(c) The purchasing power of money
(d) The availability of funds for spending and investment

1.3 - The Sources of Money Supply

1. **The main source of money supply in an economy is:**
(a) Foreign exchange reserves (b) Government bonds
(c) Central bank's monetary operations (d) Stock market investments

2. **Which entity has the authority to create and regulate the money supply in most countries?**
(a) Commercial banks (b) Central banks
(c) Investment banks (d) Foreign banks

3. **The process by which commercial banks create money through lending and deposit creation is known as:**
(a) Fractional reserve banking (b) Currency issuance
(c) Foreign exchange trading (d) Stock market manipulation

4. **When the central bank buys government bonds from commercial banks, it leads to:**
(a) An increase in the money supply (b) A decrease in the money supply
(c) No change in the money supply (d) An increase in interest rates

5. **The money supply can also be affected by other non-bank financial institutions, such as:**
(a) Pension funds (b) Hedge funds
(c) Insurance companies (d) All of the above

1.4 - Measurement of Money Supply

1. **M1 money supply includes which of the following components?**
(a) Currency (cash) in circulation and demand deposits
(b) Currency (cash) in circulation, demand deposits, and time deposits
(c) Currency (cash) in circulation, demand deposits, time deposits, and savings deposits
(d) Currency (cash) in circulation, demand deposits, time deposits, and foreign exchange reserves

2. **M2 money supply is a broader measure and includes which of the following components?**
(a) Currency (cash) in circulation and demand deposits
(b) Currency (cash) in circulation, demand deposits, and time deposits
(c) Currency (cash) in circulation, demand deposits, time deposits, and savings deposits
(d) Currency (cash) in circulation, demand deposits, time deposits, and foreign exchange reserves

3. **M3 money supply is an even broader measure and includes which of the following components?**
(a) Currency (cash) in circulation and demand deposits
(b) Currency (cash) in circulation, demand deposits, and time deposits
(c) Currency (cash) in circulation, demand deposits, time deposits, and savings, deposits
(d) Currency (cash) in circulation, demand deposits, time deposits, and foreign exchange reserves

4. **Which of the following is not included in any of the measures of money supply (M1, M2, M3)?**
(a) Currency (cash) in circulation (b) Demand deposits
(c) Time deposits (certificates of deposit) (d) Government bonds

5. **The monetary aggregates M1, M2, and M3 are classified based on the:**
(a) Time periods for which the money is held
(b) Size of the economy
(c) Level of government debt
(d) Liquidity of the components included

1.5 - Determinants of Money Supply

1. **The primary determinant of money supply in an economy is the:**
(a) Central bank's monetary policy (b) Government's fiscal policy
(c) Exchange rate fluctuations (d) Foreign direct investment

2. **When the central bank buys government bonds in the open market, it leads to:**
(a) An increase in the money supply (b) A decrease in the money supply
(c) No change in the money supply (d) An increase in foreign exchange reserves

3. **The reserve requirement set by the central bank for commercial banks is a determinant of money supply because it affects the banks':**
(a) Lending capacity and money creation (b) Profitability and interest rates
(c) Foreign exchange holdings (d) Investment in government securities

4. **The interest rate set by the central bank influences the money supply by affecting:**
(a) The level of government debt (b) Consumer spending patterns
(c) Borrowing and lending behavior in the economy (d) Stock market prices

5. **In the context of money supply, the term "monetary base" refers to:**
(a) The total amount of money held by individuals and businesses
(b) The central bank's reserves and currency in circulation
(c) The total value of goods and services produced in an economy
(d) The overall value of stocks and bonds in the financial markets

1.6 - The Concept of Money Multiplier

1. **The money multiplier is a concept that represents:**
   (a) The ratio of government spending to tax revenue
   (b) The ratio of the money supply to the central bank's reserves
   (c) The ratio of government debt to GDP
   (d) The ratio of the fiscal deficit to GDP

2. **The money multiplier indicates how much the money supply:**
   (a) Increases when the central bank buys government bonds
   (b) Decreases when the central bank sells government bonds
   (c) Changes in response to changes in government expenditure
   (d) Responds to fluctuations in interest rates

3. **The money multiplier is influenced by the:**
   (a) Interest rate set by the central bank
   (b) Level of government debt
   (c) Size of the fiscal deficit
   (d) Central bank's reserve requirement for commercial banks

4. **If the reserve requirement is 10%, the money multiplier would be:**
   (a) 0.1 (b) 1 (c) 10 (d) 100

5. **The money multiplier process works based on the idea of:**
   (a) Fractional reserve banking
   (b) Government bond purchases,
   (c) Foreign exchange interventions
   (d) Currency printing

1.7 - The Money Multiplier Approach to Supply of Money

1. **The money multiplier approach explains how changes in the central bank's reserves can lead to changes in the:**
   (a) Money supply (b) Government debt
   (c) Foreign exchange reserves (d) Interest rates.

2. **According to the money multiplier approach, an increase in the central bank's reserves will result in a …………………… in the money supply.**

(a) Decrease (b) Stagnation (c) No change (d) Increase

3. **The money multiplier is calculated as the reciprocal of the:**

(a) Reserve ratio (b) Inflation rate (c) Interest rate (d) Fiscal deficit

4. **If the reserve ratio is 10%, the money multiplier would be:**

(a) 1 (b) 10 (c) 0.1 (d) 100

5. **The money multiplier approach assumes that commercial banks will use their excess reserves to:**

(a) Decrease interest rates (b) Increase government spending

(c) Make speculative investments (d) Create new loans and deposits

6. **Assume the reserve requirement ratio set by the central bank is 10%. If the central bank injects $1,000 of new reserves into the banking system, what will be the total increase in the money supply based on the money multiplier approach?**

(a) $1,000 (b) $2,000 (c) $5,000 (d) $10,000

1.8 - Monetary Policy and Money Supply

1. **Monetary policy refers to the actions, taken by the central bank to:**

(a) Control government spending

(b) Regulate foreign exchange rates

(c) Manage the money supply and interest rates

(d) Implement fiscal measures

2. **When the central bank wants to increase the money supply, it can:**

(a) Sell government bonds in the open market

(b) Raise the reserve requirement ratio for banks

(c) Decrease the discount rate

(d) Absorb excess reserves from banks

3. **If the central bank reduces the reserve requirement ratio for commercial banks, it will likely result in:**
(a) An increase in the money supply
(b) A decrease in the money supply
(c) No change in the money supply
(d) A change in the exchange rate

4. **Open market operations involve the central bank buying or selling government bonds. When the central bank buys government bonds from the market, it:**
(a) Increases the money supply
(b) Decreases the money supply
(c) Has no effect on the money supply
(d) Increases government debt

5. **Contractionary monetary policy is characterized by the central bank's actions to:**
(a) Increase government spending
(b) Lower taxes
(c) Reduce the money supply and raise interest rates
(d) Increase the money supply and lower, interest rates

1.9 - Effect of Government Expenditure on Money Supply

1. **When the government increases its expenditure by borrowing from the central bank, what will be the impact on the money supply?**
(a) Increase in the money supply
(b) Decrease in the money supply
(c) No change in the money supply
(d) The impact depends on the type of government expenditure

2. **Government-expenditure that is financed through tax revenue has what effect on the money supply?**
(a) Increase in the money supply
(b) Decrease in the money supply
(c) No change in the money supply
(d) The impact depends on the level of taxation

3. **The effect of government expenditure on the money supply is influenced by the government's financing method. When the government borrows from the public to finance its spending, it can lead to:**
(a) An increase in the money supply
(b) A decrease in the money supply
(c) Inflation
(d) A reduction in public debt

4. **Expansionary fiscal policy, which involves increasing government expenditure, can lead to an increase in the money supply if the government:**

(a) Prints additional currency notes

(b) Borrows from commercial banks

(c) Increases taxes to finance the expenditure

(d) Sells government bonds in the open market

5. **The impact of government expenditure on the money supply can be limited if the central bank conducts offsetting monetary policy actions, such as:**

(a) Increasing the reserve requirement ratio for banks

(b) Decreasing the interest rates

(c) Selling government bonds in the open market

(d) Implementing exchange rate interventions

6. **Assume the reserve requirement ratio, set by the central bank is 10%, and the initial money supply (M1) is $1,000. If the government spends an additional $ 200 on goods and services, and the money multiplier is 5, what will be the total change in the money supply?**

(a) $200 (b) $500 (c) $1,000 (d) $1,200

ANSWERS (Unit 2):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	B	4.	B	5.	A
6.	C	7.	A	8.	C	9.	C	10.	C
11.	D								

1.2 – Rationale of Measuring Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	A	3.	A	4.	C	5.	B
6.	B	7.	C	8.	C	9.	C	10.	D
11.	C	12.	A						

1.3 – The Sources of Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	C	4.	C	5.	C
6.	D	7.	C	8.	C	9.	B	10.	C
11.	C								

1.4 – Measurement of Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	A	4.	C	5.	D
6.	B								

1.5 – Determinants Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	A	3.	C	4.	C	5.	D
6.	B	7.	D	8.	C	9.	B	10.	B
11.	B	12.	B						

1.6 – The Concept of Money Multiplier

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	B	4.	B	5.	A
6.	B	7.	B	8.	A	9.	C	10.	C
11.	A	12.	A						

1.7 – The Money Multiplier Approach to Supply of Money

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	B	5.	C
6.	D	7.	B	8.	B	9.	C	10.	A
11.	D	12.	A	13.	B	14.	A	15.	C
16.	C	17.	C	18.	B	19.	A	20.	A
21.	D	22.	C	23.	D	24.	B	25.	D
26.	A	27.	C						

1.8 – Monetary Policy and Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	B	5.	A
6.	C	7.	A	8.	B	9.	A	10.	A

1.9 – Effect of Government Expenditure on Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	B	4.	B	5.	A
6.	D	7.	A	8.	B	9.	B		

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	A	4.	A	5.	A

1.2 – Rationale of Measuring Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	A	3.	C	4.	B	5.	D

1.3 – The Sources of Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	A	4.	A	5.	D

1.4 – Measurement of Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	D	4.	D	5.	D

1.5 – Determinants Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	A	4.	C	5.	B

1.6 – The Concept of Money Multiplier

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	D	4.	C	5.	A

1.7 – The Money Multiplier Approach to Supply of Money

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	D	3.	A	4.	B	5.	D
6.	B								

1.8 – Monetary Policy and Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	A	4.	A	5.	C

1.9 – Effect of Government Expenditure on Money Supply

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	A	4.	B	5.	C
6.	B								

Unit 3: Monetary Policy

1.1 - Introduction

1. **Monetary policy in India is formulated and regulated by:**
   (a) The Ministry of Finance.
   (b) The Planning Commission of India.
   (c) The Reserve Bank of India (RBI).
   (d) The Securities and Exchange Board of India (SEBI).

2. **The primary objective of monetary policy in India is to:**
   (a) Control government spending and fiscal deficits.
   (b) Regulate foreign trade and exchange rates.
   (c) Control the money supply and inflation.
   (d) Set interest rates for commercial banks.

3. **Which of the following is an example of an expansionary monetary policy measure that the RBI may adopt in India?**
   (a) Increasing the Repo Rate.
   (b) Decreasing the Cash Reserve Ratio (CRR).
   (c) Selling government securities in the open market.
   (d) Increasing the Statutory Liquidity Ratio (SLR).

4. **Contractionary monetary policy measures are designed to:**
   (a) Increase government spending and investment.
   (b) Decrease the money supply and control inflation.
   (c) Encourage more borrowing and spending by the public.
   (d) Reduce interest rates for businesses and individuals.

5. **The primary transmission mechanism through which monetary policy affects the economy in India is:**
   (a) The money multiplier effect.
   (b) The fiscal policy multiplier.
   (c) The currency-deposit ratio.
   (d) The credit and interest rate channels.

6. **Monetary policy is the process by which the central bank of India controls the:**
(a) Government's fiscal policy.
(b) Money supply and interest rates in the economy,
(c) Exchange rates and foreign trade.
(d) Stock market and financial institutions.

7. **Which of the following is a primary objective of monetary policy in India?**
(a) Controlling the government's fiscal policy.
(b) Regulating the stock market and financial institutions.
(c) Achieving price stability and controlling inflation.
(d) Promoting international trade and investment.

8. **The Reserve Bank of India (RBI) uses various monetary policy tools to implement its policies. One such tool is the "Cash Reserve Ratio (CRR)." What does CRR represent?**
(a) The rate at which commercial banks borrow from the RBI.
(b) The rate at which the RBI lends to commercial banks.
(c) The percentage of total deposits that banks must keep as reserves with the RBI.
(d) The rate at which the RBI buys government securities in the open market.

9. **When the Reserve Bank of India (RBI) wants to increase the money supply in the economy, it is likely to:**
(a) Raise the Cash Reserve Ratio (CRR).
(b) Lower the Repo Rate.
(c) Increase the Statutory Liquidity Ratio (SLR).
(d) Conduct open market sales of government securities.

10. **What is the primary challenge faced by the central bank in implementing monetary policy In India?**
(a) Political interference in monetary matters.
(b) Lack of coordination with the government's fiscal policy.
(c) Exchange rate fluctuations in the global market.
(d) Limited control over the money supply.

1.2 - Monetary Policy Defined

1. **Monetary policy in India refers to the:**
   (a) Government's control over the stock market and financial institutions.
   (b) Regulation of foreign trade and exchange rates by the Reserve Bank of India (RBI).
   (c) Central bank's control over the money supply and interest rates in the economy.
   (d) Government's control over taxation and public spending.

2. **The main goal of monetary policy in India is to:**
   (a) Control the government's fiscal policy.
   (b) Regulate foreign trade and international transactions.
   (c) Control the money supply and maintain price stability.
   (d) Promote international investments and trade.

3. **Which of the following monetary policy tools can be used by the Reserve Bank of India (RBI) to reduce the money supply in the economy?**
   (a) Lowering the Cash Reserve Ratio (CRR).
   (b) Lowering the Repo Rate.
   (c) Conducting open market purchases of government securities.
   (d) Increasing the Statutory Liquidity Ratio (SLR).

4. **When the Reserve Bank of India (RBI) aims to stimulate economic growth and increase the money supply, it is likely to:**
   (a) Raise the Reverse Repo Rate.
   (b) Raise the Cash Reserve Ratio (CRR).
   (c) Conduct open market sales of government securities.
   (d) Raise the Repo Rate.

5. **The term "Monetary Policy Transmission Mechanism" refers to:**
   (a) The process of converting fiscal policy into monetary policy.
   (b) The channels through which monetary policy affects the economy.
   (c) The coordination between the central bank and the government.
   (d) The process of setting interest rates by the central bank.

6. **Monetary policy in India refers to the process by which the Reserve Bank of India (RBI) controls:**
   (a) The government's fiscal policy.
   (b) The stock market and financial institutions.
   (c) The money supply and interest rates in the economy.
   (d) Exchange rates and foreign trade.

7. **The primary objective of monetary policy in India is to achieve:**
   (a) Fiscal stability and balanced budget.
   (b) Price stability and control inflation.
   (c) High economic growth and full employment.
   (d) Favorable balance of trade and exchange rate stability.

8. **Which of the following is true regarding the formulation of monetary policy in India?**
   (a) The Ministry of Finance is solely responsible for formulating monetary policy.
   (b) The Parliament plays a direct role in formulating monetary policy.
   (c) The Reserve Bank of India (RBI) formulates and implements monetary policy independently.
   (d) Monetary policy is formulated by a committee of commercial bank representatives.

9. **When the Reserve Bank of India (RBI) wants to reduce the money supply and control inflation, it is likely to:**
   (a) Lower the Cash Reserve Ratio (CRR).
   (b) Raise the Repo Rate.
   (c) Decrease the Statutory Liquidity, Ratio (SLR).
   (d) Conduct open market purchases of government securities.

10. **The role of the Monetary Policy Committee (MPC) in India is to:**
   (a) Formulate the government's fiscal policy.
   (b) Implement exchange rate policies.
   (c) Set interest rates and make decisions related to monetary policy.
   (d) Regulate the stock market and financial institutions.

1.3 - The Monetary Policy Framework.

1. **The Monetary Policy Framework in India is governed by:**
   (a) The Ministry of Finance.
   (b) The Prime Minister's Office (PMO).
   (c) The Reserve Bank of India (RBI).
   (d) The Securities and Exchange Board of India (SEBI).

2. **The Monetary Policy Framework in India was transitioned from a fixed exchange rate system to a flexible exchange rate system in the year:**
   (a) 1947 (c) 1991 (b) 1951 (d) 2000

3. **The Monetary Policy Committee (MPC) in India consists of members from:**
   (a) Commercial banks and financial institutions.
   (b) The Ministry of Finance and the RBI.
   (c) Academia, the RBI, and the government.
   (d) The World Bank and the International Monetary Fund (IMF).

4. **The primary objective of the Monetary Policy Framework in India is to achieve:**
   (a) High economic growth and full employment.
   (b) Fiscal stability and balanced budget.
   (c) Price stability and controlled inflation.
   (d) Favorable balance of trade and exchange rate stability.

5. **The "Liquidity Adjustment Facility (LAF)" is a significant instrument used in the Monetary Policy Framework in India. What does LAF primarily aim to do?**
   (a) Regulate the foreign exchange market.
   (b) Control the money supply in the economy.
   (c) Encourage foreign direct investment (FDI).
   (d) Regulate the stock market.

1.3.1 - The Objectives of Monetary Policy

1. The primary objective of monetary policy in India is to:

(a) Achieve high economic growth and full employment.

(b) Control the government's fiscal policy.

(c) Regulate the stock market and financial institutions.

(d) Achieve price stability and controlled inflation.

2. In addition to price stability, monetary policy in India also aims to:

(a) Regulate foreign trade and exchange rates.

(b) Control the money supply and interest rates.

(c) Encourage foreign direct investment (FDI).

(d) Reduce the government's fiscal deficit.

3. One of the secondary objectives of monetary policy in India is to promote:

(a) Government spending and fiscal expansion

(b) Foreign trade and export-oriented industries.

(c) Financial inclusion and banking services.

(d) Equity and social justice.

4. Which of the following is NOT an objective of monetary policy in India?

(a) Controlling inflation and maintaining price stability.

(b) Promoting foreign direct investment (FDI).

(c) Facilitating economic growth and development.

(d) Ensuring financial stability in the banking system.

5. The objectives of monetary policy in India are set by:

(a) The Ministry of Finance.

(b) The Reserve Bank of India (RBI).

(c) The Securities and Exchange Board of India (SEBI).

(d) The Parliament of India.

1.3.2 - Transmission of Monetary Policy

1. **The transmission of monetary policy in India refers to:**
   (a) The process of formulating monetary policy objectives.
   (b) The implementation of fiscal policy measures by the government.
   (c) The process by which changes in monetary policy affect the economy.
   (d) The coordination between the Ministry of Finance and the Reserve Bank of India.

2. **When the Reserve Bank of India (RBI) reduces the repo rate, it is likely to impact the economy by:**
   (a) Increasing borrowing costs for consumers and businesses.
   (b) Encouraging commercial banks to lower lending rates.
   (c) Discouraging foreign direct investment (FDI).
   (d) Lowering government expenditure.

3. **The "Bank Rate" is one of the key policy rates used by the Reserve Bank of India (RBI). An increase in the Bank Rate is likely to impact the economy by:**
   (a) Encouraging banks to increase their lending activities.
   (b) Reducing interest rates for consumers and businesses.
   (c) Discouraging borrowing and spending.
   (d) Promoting exports and foreign trade.

4. **How does the transmission of monetary policy impact the stock market in India?**
   (a) An expansionary monetary policy leads to a bearish market.
   (b) A contractionary monetary policy leads to a bullish market.
   (c) Monetary policy has no direct impact on the stock market.
   (d) An expansionary monetary policy leads to a bullish market.

5. **The transmission of monetary policy in India occurs through various channels, including:**
   (a) Fiscal policy measures implemented by the government.
   (b) Changes in the foreign exchange rate.
   (c) Changes in government borrowing and expenditure.
   (d) Changes in bank lending rates and credit availability.

Channels of Monetary Policy Transmission

Saving and Investment Channel

6. The Saving and Investment Channel of monetary policy in India refers to:

(a) The process of promoting saving and investment through government policies.
(b) The impact of changes in interest rates on saving and investment behavior.
(c) The role of the stock market in mobilizing savings and facilitating investments.
(d) The coordination between the Ministry of Finance and the Reserve Bank of India.

7. When the Reserve Bank of India (RBI) lowers interest rates, it is likely impact saving and investment by:

(a) Encouraging more saving and less investment.
(b) Encouraging less saving and more investment.
(c) Discouraging both saving and investment.
(d) Having no impact on saving and investment.

8. The impact of the Saving and Investment Channel on the economy is that lower interest rates can lead to:

(a) Increased aggregate demand and economic expansion.
(b) Reduced government expenditure and fiscal contraction.
(c) A decrease in foreign direct investment (FDI).
(d) A decrease in consumer spending and increased saving.

9. When the RBI raises interest rates, the impact on saving and investment in India is likely to be:

(a) Higher saving and lower investment.
(b) Lower saving and higher investment.
(c) A decrease in aggregate demand and economic contraction.
(d) An increase in the government's fiscal deficit.

10. The Saving and Investment Channel is an essential mechanism through which monetary policy affects the real economy in India. How does this channel influence economic growth?

(a) By directly controlling government spending and fiscal policy.
(b) By influencing saving and investment behavior to stimulate. economic activity.
(c) By regulating foreign trade and exchange rates.
(d) By promoting foreign direct investment (FDI) and exports.

Cash-flow Channel

11. The Cash-flow Channel of monetary policy in India refers to:

(a) The impact of changes in interest rates on cash flows of businesses and households.

(b) The process of managing the government's cash reserves.

(c) The role of the Reserve Bank of India (RBI) in printing and distributing currency notes.

(d) The coordination between the Ministry of Finance and the RBI in managing cash transactions.

12. When the Reserve Bank of India (RBI) lowers interest rates, the Cash-flow Channel is likely to affect the economy by:

(a) Reducing the government's fiscal deficit.

(b) Encouraging businesses to invest more and. increase spending.

(c) Encouraging individuals to save more and reduce spending.

(d) Having no impact on the cash flows of businesses and households.

13. The impact of the Cash-flow Channel on the economy is that lower interest rates can lead to:

(a) Reduced government borrowing and increased fiscal discipline.

(b) A decrease in foreign direct investment (FDI).

(c) An increase in consumer spending and economic growth.

(d) A decrease in aggregate demand and economic contraction.

14. When the RBI raises interest rates, the Cash-flow Channel is likely to impact the economy by:

(a) Encouraging more borrowing and spending by households.

(b) Discouraging businesses from undertaking new investment projects.

(c) Having no impact on the cash flows of businesses and households.

(d) Reducing the fiscal deficit and promoting government savings.

15. The Cash-flow Channel is an essential mechanism through which monetary policy affects the real economy in India. How does this channel influence financial markets?

(a) By directly regulating stock market transactions.

(b) By influencing the flow of currency in the economy.

(c) By impacting the cash flows and investment decisions of financial institutions.

(d) By controlling the government's fiscal policy.

<u>Asset Prices and Wealth Channel</u>

16. The Asset Prices and Wealth Channel of monetary policy in India refers to:

(a) The impact of changes in interest rates on the prices of assets like stocks and real estate.

(b) The management of the country's foreign exchange reserves.

(c) The role of the Reserve Bank of India (RBI) in controlling commodity prices.

(d) The coordination between the Ministry of Finance and the RBI in managing financial assets.

17. When the Reserve Bank of India (RBI) lowers interest rates, the Asset Prices and Wealth Channel is likely to affect the economy by:

(a) Encouraging more borrowing and spending by households and businesses.

(b) Decreasing the prices of assets like stocks and real estate.

(c) Increasing the value of financial assets and overall wealth.

(d) Having no impact on asset prices and wealth.

18. The impact of the Asset Prices and Wealth Channel on the economy is that rising asset prices and increased wealth can lead to:

(a) Reduced consumption and decreased economic growth.

(b) Higher borrowing costs and decreased investment,

(c) Increased consumer spending and improved economic activity.

(d) A decrease in government expenditure and fiscal discipline.

19. When the RBI raises interest rates, the Asset Prices and Wealth Channel is likely to impact the economy by:

(a) Increasing the prices of financial assets and overall wealth.

(b) Encouraging more borrowing and investment by businesses.

(c) Discouraging borrowing and spending by households and businesses.

(d) Reducing the government's fiscal deficit.

20. The Asset Prices and Wealth Channel is an essential mechanism. through which monetary policy affects the real economy in India. How does this channel influence consumer behavior?

(a) By directly regulating consumer spending and saving rates.

(b) By influencing the prices of consumer goods and services.

(c) By impacting the overall wealth and financial positions of consumers.

(d) By controlling the government's fiscal policy.

<u>Exchange Rate Channel</u>

21. The Exchange Rate Channel of monetary policy in India refers to:

(a) The impact of changes in the exchange rate on the domestic economy.

(b) The management of the country's foreign exchange reserves.

(c) The role of the Reserve Bank of India (RBI) in controlling import and export activities.

(d) The coordination between the Ministry of Finance and the RBI in managing exchange rates.

22. When the Reserve Bank of India (RBI) allows the domestic currency to appreciate, it is likely to impact the economy by

(a) Making imports cheaper and increasing import volumes.

(b) Making exports more expensive and decreasing export volumes.

(c) Encouraging more foreign direct investment (FDI).

(d) Having no impact on the economy.

23. The impact of the Exchange Rate Channel on the economy is that a depreciating domestic currency can lead to:

(a) Increased export volumes and improved balance of trade.

(b) Higher import costs and increased inflation.

(c) A decrease in foreign direct investment (FDI).

(d) Decreased government spending and fiscal discipline.

24. When the RBI intervenes in the foreign exchange market to stabilize the domestic currency, the Exchange Rate Channel is likely to impact the economy by:

(a) Encouraging more borrowing and spending by households and businesses.

(b) Influencing the flow of currency in the economy.

(c) Having no impact on the economy's external sector.

(d) Maintaining stable exchange rates to support trade and investment.

25. The Exchange Rate Channel is an essential mechanism through which monetary policy affects the real economy in India. How does this channel influence inflation?

(a) By directly regulating consumer prices and wages.

(b) By impacting the cost of imported goods and commodities.

(c) By controlling the government's fiscal policy.

(d) By regulating the money supply in the economy.

1.3.3 - Operating Procedures and Instruments

1. **Operating Procedures and Instruments of Monetary Policy in India are designed to:**

   (a) Manage the government's fiscal deficit and public debt.

   (b) Regulate the country's foreign exchange reserves.

   (c) Control the money supply and influence interest rates.

   (d) Coordinate the monetary policy with fiscal policy measures.

2. **The primary instrument used by the Reserve Bank of India (RBI) to control short-term interest rates is:**

   (a) The Cash Reserve Ratio (CRR) (b) The Statutory Liquidity Ratio (SLR)

   (c) The Repo Rate. (d) The Bank Rate.

3. **Open Market Operations (OMOS) is one of the tools used by the RBI to influence the money supply. What does OMOS involve?**

   (a) The RBI's intervention in the foreign exchange market.

   (b) The sale and purchase of government securities in the open market.

   (c) The regulation of foreign direct investment (FDI) flows.

   (d) The control of inflation through price ceilings

4. **The Cash Reserve Ratio (CRR) is another tool used by the RBI to regulate the money supply. What does CRR represent?**

   (a) The percentage of cash banks must maintain with the RBI as a reserve.

   (b) The interest rate at which banks can borrow from the RBI.

   (c) The percentage of cash banks must keep with the RBI for foreign exchange transactions.

   (d) The rate at which the R31 lends money to banks for long-term purposes.

5. **The Reverse Repo Rate is an important tool used by the RBI for monetary policy operations, what does the Reverse Repo Rate represent?**

   (a) The rate at which the RB borrows from commercial banks.

   (b) The rate at which the RBI lends to commercial banks.

   (c) The rate at which commercial banks borrow from each other.

   (d) The rate at which the RBI intervenes in the foreign exchange market.

1.4 - The Organisational Structure for Monetary Policy Decisions

1. **In India, the responsibility for formulating and implementing monetary policy lies with:**
   (a) The Ministry of Finance.
   (b) The Reserve Bank of India (RBI).
   (c) The Securities and Exchange Board of India (SEBI).
   (d) The Indian Parliament.

2. **The highest decision-making body for monetary policy in India is:**
   (a) The Board of Directors of the Reserve Bank of India (RBI).
   (b) The Finance Minister of India.
   (c) The Prime Minister of India.
   (d) The Monetary Policy Committee (MPC) of the RBI.

3. **The Monetary Policy Committee (MPC) consists of members from:**
   (a) The Ministry of Finance and external economists.
   (b) The Indian Parliament and the banking sector.
   (c) The Ministry of Commerce and the corporate sector.
   (d) The Reserve Bank of India (RBI) and foreign central banks.

4. **The Governor of the Reserve Bank of India (RBI) serves as the:**
   (a) Chairman of the Monetary Policy Committee (MPC).
   (b) Secretary of the Ministry of Finance.
   (c) Chief Executive Officer (CEO) of the RBI.
   (d) Head of the Indian Parliament.

5. **The primary mandate of the Monetary Policy Committee (MPC) is to:**
   (a) Regulate the foreign exchange market and maintain exchange rate stability.
   (b) Control inflation and achieve the targeted inflation rate.
   (c) Manage the government's fiscal deficit and public debt.
   (d) Promote economic growth and increase employment opportunities.

6. **The Monetary Policy Committee (MPC) in India is responsible for:**
   (a) Managing the country's foreign exchange reserves.
   (b) Setting the government's fiscal policy measures.
   (c) Formulating and determining monetary policy decisions.
   (d) Implementing the government's public expenditure programs.

7. **The MPC in India meets at regular intervals to review and decide on monetary policy actions. How often does the MPC typically hold its meetings?**
(a) Monthly (b) Quarterly (c) Biannually (d) Annually

8. **The Governor of the Reserve Bank of India (RBI) is the ex-officio chairperson of the Monetary Policy Committee. Additionally, how many external members are appointed by the government to the MPC?**
(a) Two (c) Four (b) Three (d) Five

9. **The decisions of the Monetary Policy Committee (MPC) are taken by a majority vote. What is the casting vote rule in case of a tie?**
(a) The RBI Governor gets the casting vote.
(b) The external members get the casting vote.
(c) The government's representative gets the casting vote.
(d) The Deputy Governor of RBI gets the casting vote.

10. **What is the primary objective of the Monetary Policy Committee (MPC) in India?**
(a) To promote economic growth and employment.
(b) To manage the government's fiscal deficit.
(c) To regulate the country's foreign exchange rates.
(d) To oversee the functioning of commercial banks.

Additional Question Bank

1.1 - Introduction

1. **Monetary policy is a tool used by the central bank to:**
(a) Regulate foreign trade
(b) Control inflation and stabilize the economy
(c) Manage government expenditures
(d) Influence fiscal policy

2. **Which of the following is an example of an expansionary monetary policy?**
(a) Increasing the reserve requirement ratio
(b) Selling government bonds in the open market
(c) Decreasing the discount rate
(d) Raising taxes

3. **Contractionary monetary policy aims to:**
(a) Boost economic growth and employment
(b) Increase the money supply and lower interest rates
(c) Reduce inflation and cool down an overheated economy
(d) Encourage borrowing and spending

4. **The interest rate at which the central bank lends to commercial banks is known as:**
(a) The discount rate (b) The federal funds rate
(c) The prime rate (d) The benchmark rate

5. **When the central bank buys government bonds from the market, it:**
(a) Increases the money supply
(b) Decreases the money supply
(c) Has no effect on the money supply
(d) Increases government debt

1.2 - Monetary Policy Defined

1. **Monetary policy is a macroeconomic policy that is primarily concerned with:**
(a) Managing government expenditures (b) Regulating foreign trade
(c) Controlling the money supply and interest rates (d) Implementing tax policies

2. **The main objective of monetary policy is to:**
(a) Maximize government revenue
(b) Stabilize foreign exchange rates
(c) Promote economic growth and employment
(d) Control inflation and reduce government debt

3. **In a contractionary monetary policy, the central bank takes actions to:**
(a) Increase the money supply and lower interest rates
(b) Reduce government spending and increase taxes
(c) Decrease the money supply and raise interest rates
(d) Encourage borrowing and spending

4. **The Federal Reserve in the United States and the European Central Bank are examples of:**
(a) Fiscal policy authorities (b) Commercial banks
(c) Investment banks (d) Central banks responsible for monetary policy

5. **Which of the following is not a monetary policy tool used by central banks?**
(a) Open market operations. (b) Reserve requirement ratio
(c) Government bonds issuance (d) Discount rate

1.3 - The Monetary Policy Framework

1. **The monetary policy framework outlines the strategies and tools used by the central bank to achieve its monetary policy objectives. Which of the following is not a typical objective of a central bank's monetary policy?**
(a) Price stability and controlling inflation
(b) Promoting economic growth and employment
(c) Regulating foreign exchange rates
(d) Ensuring financial stability and supervision

2. **The two main types of monetary policy frameworks are:**
(a) Inflation targeting and exchange rate targeting
(b) Fiscal policy and monetary targeting
(c) Open market operations and reserve requirements
(d) Price stability and financial stability

3. **In an inflation targeting framework, the central bank aims to achieve a specific target for:**
(a) The money supply growth rate (b) Unemployment rate
(c) Economic growth rate (d) Inflation rate

4. **Exchange rate targeting involves the central bank pegging the domestic currency to:**
(a) A basket of foreign currencies
(b) Gold or other precious metals
(c) The inflation rate of a major trading partner
(d) The interest rate set by the central bank

5. **An advantage of an inflation targeting framework is that it provides:**
   (a) Flexibility for the central bank to adjust its policy based on changing economic conditions
   (b) Fixed and rigid monetary policy rules that do not require adjustments
   (c) Complete independence of the central bank from the government's fiscal policies
   (d) No need for central bank communication with the public and financial markets.

1.4 - The Organisational Structure for Monetary Policy Decisions

1. **In most countries, monetary policy decisions are made by:**
   (a) The President or Prime Minister
   (b) The Treasury Department
   (c) The Ministry of Finance
   (d) The central bank's monetary policy committee or board

2. **The central bank's monetary policy committee or board is responsible for:**
   (a) Implementing fiscal policies
   (b) Setting interest rates and managing the money supply
   (c) Regulating foreign trade
   (d) Issuing government bonds

3. **The monetary policy committee or board typically consists of:**
   (a) Elected government officials
   (b) Financial market analysts
   (c) Representatives from commercial banks
   (d) Key decision-makers from the central bank

4. **The primary objective of the monetary policy committee or board is to:**
   (a) Maximize government revenue
   (b) Control foreign exchange rates
   (c) Achieve price stability and economic growth
   (d) Influence fiscal policy decisions

5. **in some countries, the central bank's monetary policy decisions may be influenced by the:**
   (a) Ministry of Foreign Affairs (b) World Bank
   (c) International Monetary Fund (IMF) (d) Ministry of Education

ANSWERS (Unit 3):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	B	5.	D
6.	B	7.	C	8.	C	9.	B		

1.2 – Monetary Policy Defined

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	C	5.	B
6.	C	7.	B	8.	C	9.	B	10.	C

1.3 – The Monetary Policy Framework

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	C	5.	B

1.3.1 – The Objectives of Monetary Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	B	3.	C	4.	B	5.	B

1.3.2 – Transmission of Monetary Policy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	C	4.	D	5.	D
6.	B	7.	B	8.	A	9.	A	10.	B
11.	A	12.	B	13.	C	14.	B	15.	C
16.	A	17.	C	18.	C	19.	C	20.	C
21.	A	22.	B	23.	A	24.	D	25.	B

1.3.3 – Operating Procedures and Instruments

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	A	5.	A

1.4 – The Organisational Structure for Monetary Policy Decisions

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	A	4.	A	5.	B
6.	C	7.	B	8.	B	9.	A	10.	A

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	A	5.	A

1.2 – Monetary Policy Defined

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	D	5.	C

1.3 – The Monetary Policy Framework

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	D	4.	A	5.	A

1.4 – The Organisational Structure for Monetary Policy Decisions

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	B	3.	D	4.	C	5.	C

Notes:

CHAPTER-4

INTERNATIONAL TRADE

Unit 1: Theories of International Trade

1.1 - Introduction

1. **Which theory suggests that a country should specialize in producing goods in which it has an absolute advantage?**

   (a) Comparative Advantage Theory (b) Mercantilism Theory

   (c) Absolute Advantage Theory (d) Factor Proportions Theory

2. **According to the Comparative Advantage Theory, trade between two countries can be beneficial if:**

   (a) Both countries have the same resources and technology.

   (b) Both countries have a balanced trade

   (c) One country has an absolute advantage in all goods.

   (d) Each country specializes in producing goods in which it has a lower opportunity cost.

3. **The theory that emphasizes the role of factor endowments as the basis for trade is known as:**

   (a) Absolute Advantage Theory (b) Heckscher-Ohlin Theory

   (c) New Trade Theory (d) Porter's Diamond Model

4. **Which theory of international trade explains trade patterns based on economies of scale and product differentiation?**

   (a) Comparative Advantage Theory (b) Mercantilism Theory

   (c) New Trade Theory (d) Absolute Advantage Theory

5. **The theory that states a country should protect its domestic industries in order to build national wealth and power is called:**

   (a) Absolute Advantage Theory (b) Mercantilism Theory

   (c) Comparative Advantage Theory (d) Factor Proportions Theory

1.2 - Important Theories of International Trade

1. **The theory that suggests that a country should specialize in producing and exporting goods in which it has a comparative advantage, and import goods in which it has a comparative disadvantage, is known as:**
   (a) The Mercantilist Theory
   (b) The Theory of Absolute Advantage
   (c) The Theory of Comparative Advantage
   (d) The Heckscher-Ohlin Theory

2. **According to the Theory of Absolute Advantage, trade between two countries can be mutually beneficial if:**
   (a) Both countries have the same level of productivity.
   (b) One country can produce all goods at a lower cost than the other.
   (c) Both countries have the same resources and technology.
   (d) Both countries impose high tariffs on imports.

3. **The Heckscher-Ohlin Theory of International Trade emphasizes that trade is influenced by differences in:**
   (a) Absolute advantage between countries.
   (b) Comparative advantage between countries.
   (c) Factor endowments between countries.
   (d) Monetary policies between countries.

4. **The Mercantilist Theory of International Trade advocates that a country should:**
   (a) Encourage imports to promote domestic industries.
   (b) Export more than it imports to accumulate wealth in the form of precious metals.
   (c) Adopt a policy of free trade to promote global cooperation.
   (d) Reduce tariffs and barriers to trade.

5. **According to the Product Life Cycle Theory of International Trade, in which stage of a product's life cycle is a country likely to export it?**
   (a) Introduction stage
   (b) Growth stage
   (c) Maturity stage
   (d) Decline stage

6. **The theory that suggests that a country should specialize in producing goods in which it has an absolute advantage and then trade with other countries to maximize overall efficiency is known as:**
   (a) The Theory of Comparative Advantage
   (b) The Theory of Absolute Advantage

(c) The Theory of Factor Proportions
(d) The Theory of International Product Life Cycle.

7. **The theory that explains how countries benefit from trade by focusing on the opportunity cost of producing different goods is known as:**
(a) The Theory of Comparative Advantage
(b) The Theory of Absolute Advantage
(c) The Theory of Factor Proportions
(d) The Theory of International Product Life Cycle

8. **The theory that emphasizes the importance of factor endowments (such as labor and capital) in determining a country's trade patterns is known as:**
(a) The Theory of Comparative Advantage
(b) The Theory of Absolute Advantage
(c) The Theory of Factor Proportions
(d) The Theory of International Product Life Cycle

9. **The theory that explains how a product's life cycle influences a country's trade patterns and the direction of trade is known as:**
(a) The Theory of Comparative Advantage
(b) The Theory of Absolute Advantage
(c) The Theory of Factor Proportions
(d) The Theory of International Product Life Cycle

10. **The theory that takes into account the economies of scale and imperfect competition in international trade is known as:**
(a) The Theory of Comparative Advantage (b) The Theory of Absolute Advantage
(c) The Theory of Factor Proportions (d) The Theory of New Trade

1.2.1 - The Mercantilists' View of International Trade

1. **The Mercantilists view of international trade primarily focused on:**
(a) Promoting free trade and unrestricted movement of goods.
(b) Accumulating precious metals and maintaining a favorable balance of trade.
(c) Achieving absolute advantage in the production of all goods.
(d) Reducing tariffs and trade barriers between nations.

2. According to the Mercantilists, the best way for a country to increase its wealth was to:

(a) Encourage imports to meet domestic demand.

(b) Maintain a balanced trade with other nations.

(c) Export more goods than it imported.

(d) Focus on domestic production and self-sufficiency.

3. Mercantilists believed that colonies were essential for a country's economic success because:

(a) Colonies provided cheap labor for domestic industries.

(b) Colonies were a source of raw materials and markets for finished goods.

(c) Colonies ensured a steady supply of precious metals for the mother country.

(d) Colonies contributed to the development of free trade principles.

4. One of the main criticisms of the Mercantilist view of international trade was that it:

(a) Promoted economic cooperation and mutual benefits among nations.

(b) Encouraged countries to focus on producing goods with comparative advantage.

(c) Led to excessive competition and conflicts over trade and resources.

(d) ignored the importance of accumulating precious metals in trade.

5. Mercantilism' was the dominant economic philosophy during which historical period?

(a) The 18th century (b) The 19th century

(c) The 17th century (d) The 20th century

6. The Mercantilists view of international trade primarily focused on:

(a) Encouraging imports to promote domestic industries.

(b) Accumulating precious metals like gold and silver through exports.

(c) Promoting free trade and open markets.

(d) Reducing government intervention in trade.

7. The Mercantilists' believed that a positive balance of trade would lead to:

(a) An increase in domestic production and employment.

(b) A decrease in the country's foreign exchange reserves.

(c) A decrease in the country's wealth and power.

(d) A decline in the country's industrial development.

8. **The Mercantilists' view on imports was that they should be:**
(a) Encouraged to promote international cooperation.
(b) Avoided as they can lead to a trade deficit.
(c) Limited to essential goods not produced domestically.
(d) Unrestricted to benefit consumers with more choices.

9. **The Mercantilists' policy recommendations to achieve a positive balance of trade included:**
(a) Subsidizing exports and imposing tariffs on imports.
(b) Encouraging free trade agreements with other nations.
(c) Eliminating all trade barriers and restrictions.
(d) Adopting a laissez-faire approach to international trade.

10. **The Mercantilists' view of international trade was prevalent during the:**
(a) 19th century (b) 18th century (c) 17th century (d) 20th century

1.2.2 - The Theory of Absolute Advantage

1. **The Theory of Absolute Advantage, proposed by Adam Smith, states that a country has an absolute advantage in the production of a good when:**
(a) It can produce that good at a lower opportunity cost compared to other countries.
(b) It can produce that good using fewer resources compared to other countries.
(c) It can produce that good using the latest technology and machinery.
(d) It can produce that good and export it without any restrictions.

2. **The Theory of Absolute Advantage suggests that countries should specialize in producing goods in which they have an absolute advantage and then engage in international trade to:**
(a) Reduce competition in the domestic market.
(b) Protect domestic industries from foreign competition.
(c) Maximize overall efficiency and welfare.
(d) Decrease the employment rate in the country.

3. **Which of the following is an essential assumption of the Theory of Absolute Advantage?**
(a) Constant opportunity cost of production.
(b) The availability of perfect competition in the markets.

(c) Identical resources and technologies across all countries.

(d) The absence of trade barriers and restrictions.

4. **The Theory of Absolute Advantage highlights that international trade can lead to mutual benefits for countries because:**

(a) Each country has a comparative advantage in producing all goods.

(b) Each country can import goods that it cannot produce efficiently.

(c) Each country can export goods that it produces at a higher opportunity cost.

(d) Each country can accumulate vast amounts of wealth through trade.

5. **The Theory of Absolute Advantage laid the foundation for understanding the gains from international trade and served as a basis for:**

(a) The development of the Theory of Comparative Advantage.

(b) The imposition of trade barriers and tariffs.

(c) The establishment of international trade organizations.

(d) The promotion of self-sufficiency and autarky.

6. **The Theory of Absolute Advantage, proposed by Adam Smith, states that a country has an absolute advantage in producing a good if it can:**

(a) Produce the good at a lower opportunity cost than another country.

(b) Produce the good using fewer resources than another country.

(c) Produce the good using advanced technology and machinery.

(d) Produce the good in larger quantities than another country.

7. **According to the Theory of Absolute Advantage, when two countries specialize in producing the goods in which they have an absolute advantage and then trade with each other:**

(a) Both countries will benefit from trade due to efficiency gains.

(b) One country will gain, and the other country will lose from trade.

(c) Both countries will lose as they become dependent on each other.

(d) The terms of trade will always favor one country over the other.

8. **The Theory of Absolute Advantage suggests that international trade allows countries to:**

(a) Increase government revenue through export tariffs.

(b) Accumulate precious metals like gold and silver through exports.

(c) Achieve balanced trade with all trading partners.

(d) Specialize in producing goods efficiently and enjoy a wider range of consumption.

9. **The Theory of Absolute Advantage focuses on:**

(a) The impact of economies of scale in international trade.

(b) The importance of factor endowments in determining trade patterns.

(c) The opportunity cost of producing different goods.

(d) The comparative cost differences between countries.

10. **The Theory of Absolute Advantage is associated with the work of which economist?**

(a) David Ricardo (b) John Maynard Keynes (c) Adam Smith (d) Paul Samuelson

11. **The Theory of Absolute Advantage, proposed by Adam Smith, states that a country has an absolute advantage in producing a good if it can:**

(a) Produce the good at a lower opportunity cost than another country.

(b) Produce the good using fewer resources than another country.

(c) Produce the good using advanced technology and machinery.

(d) Produce the good in larger quantities than another country.

12. ***According* to the Theory of Absolute Advantage, when two countries specialize in producing the goods in which they have an absolute advantage and then trade with each other:**

(a) Both countries will benefit from trade due to efficiency gains.

(b) One country will gain, and the other country will lose from trade.

(c) Both countries will lose as they become dependent on each other.

(d) The terms of trade will always favor one country over the other.

13. **The Theory of Absolute Advantage suggests that international trade allows countries to:**

(a) Increase government revenue through export tariffs.

(b) Accumulate precious metals like gold and silver through exports.

(c) Achieve balanced trade with all trading partners.

(d) Specialize in producing goods efficiently and enjoy a wider range of consumption.

14. The Theory of Absolute Advantage focuses on:

(a) The impact of economies of scale in international trade.

(b) The importance of factor endowments in determining trade patterns.

(c) The opportunity cost of producing different goods.

(d) The comparative cost differences between countries:

15. The Theory of Absolute Advantage is associated with the work of which economist?

(a) David Ricardo (b) John Maynard Keynes (c) Adam Smith (d) Paul Samuelson

1.2.3 - The Theory of Comparative Advantage

1. The Theory of Comparative Advantage, developed by David Ricardo, suggests that countries should specialize in producing goods in which they have a comparative advantage. What does "comparative advantage" mean in this context?

(a) The ability to produce a good at a lower opportunity cost than another country.

(b) The ability to produce a good using fewer resources than another country.

(c) The ability to produce a good at the same cost as another country.

(d) The ability to produce a good more efficiently than another country.

2. According to the Theory of Comparative Advantage, when countries specialize in producing goods based on their comparative advantages and then trade with each other:

(a) Only one country will benefit, while the other will lose from trade.

(b) Both countries will benefit from trade due to efficiency gains.

(c) Both countries will experience a decrease in overall production.

(d) The terms of trade will always favor one country over the other.

3. The Theory of Comparative Advantage is based on the concept of:

(a) Economies of scale in production.

(b) Factor endowments and resource availability.

(c) Opportunity cost and trade-offs.

(d) Absolute cost differences between countries.

4. **The Theory of Comparative Advantage suggests that even if one country is more efficient in producing all goods compared to another country, both countries can still benefit from trade if they:**

(a) Engage in barter trade instead of monetary transactions.

(b) implement strict trade barriers and tariffs.

(c) Exchange goods based on their relative efficiency.

(d) Sign free trade agreements with each other.

5. **The Theory of Comparative Advantage is associated with the work of which economist?**

(a) Adam Smith (b) John Maynard Keynes

(c) David Ricardo (d) Paul Samuelson

6. **The Theory of Comparative Advantage, developed by David Ricardo, suggests that a country should specialize in producing a good in which it has:**

(a) The highest absolute advantage. (b) The lowest opportunity cost.

(c) The most advanced technology. (d) The highest level of exports.

7. **According to the Theory of Comparative Advantage, even if a country does not have an absolute advantage in producing any good, it can still benefit from trade if it:**

(a) Produces goods for which it has the lowest opportunity cost.

(b) Engages in international trade with multiple partners simultaneously.

(c) Adopts protectionist trade policies to restrict imports.

(d) Promotes the domestic industry through subsidies and tariffs.

8. **The Theory of Comparative Advantage suggests that international trade allows countries to:**

(a) Maximize their exports to generate higher revenue.

(b) Reduce their dependence on imports and foreign goods.

(c) Focus on producing a limited range of goods.

(d) Benefit from mutual gains and specialization in production.

9. **The Theory of Comparative Advantage is based on the assumption that:**
(a) All countries have the same level of technological advancement.
(b) Labor is the only factor of production considered in trade.
(c) Opportunity costs are constant and do not change over time.
(d) International trade is always balanced with no trade deficits.

10. **The concept of comparative advantage is often used to explain why countries engage in international trade and:**
(a) Focus on self-sufficiency and autarky.
(b) Form regional trade blocs to protect domestic industries.
(c) Seek to increase tariffs and trade restrictions.
(d) Specialize in producing goods based on relative efficiency.

1.2.4 - The Heckscher-Ohlin Theory of Trade

1. **The Heckscher-Ohlin Theory of Trade suggests that a country will export the good that uses its abundant factor of production more intensively because:**
(a) The country wants to promote domestic industries.
(b) It wants to reduce its dependence on imports.
(c) The abundant factor of production is relatively cheaper.
(d) The abundant factor of production is scarce.

2. **According to the Heckscher-Ohlin Theory, trade occurs between countries that have differences in their:**
(a) Absolute advantage in production.
(b) Size of population.
(c) Factor endowments, such as labor and capital.
(d) Industrialization levels.

3. **The Heckscher-Ohlin Theory predicts that a country with a relatively large endowment of skilled labor is likely to export:**
(a) Capital-intensive goods.
(b) Labor-intensive goods.
(c) Natural resources.
(d) Services.

4. **The Heckscher-Ohlin Theory of Trade assumes that factors of production are:**
(a) Mobile and can move freely between countries.
(b) Immobile and cannot move between countries.

(c) Equally distributed among all countries.

(d) Constantly changing due to technological advancements.

5. The Heckscher-Ohlin Theory of Trade is also known as the theory of:

(a) Absolute Advantage (b) Comparative Advantage

(c) Factor Proportions. (d) International Product Life Cycle

6. The Heckscher-Ohlin Theory of Trade emphasizes the importance of which factor(s) in determining a country's trade patterns?

(a) Differences in technology and innovation.

(b) Differences in consumer preferences.

(c) Differences in factor endowments, such as labor and capital.

(d) Differences in government trade policies.

7. According to the Heckscher-Ohlin Theory, a country with an abundance of capital relative to labor is likely to:

(a) Import capital-intensive goods and export labor-intensive goods.

(b) Import labor-intensive goods and export capital-intensive goods.

(c) Import goods that use equal amounts of labor and capital.

(d) Not engage in international trade due to balanced factor endowments.

8. The Heckscher-Ohlin Theory of Trade predicts that trade will lead to:

(a) Convergence in factor endowments between trading partners.

(b) Divergence in factor endowments between trading partners.

(c) A decrease in specialization and comparative advantage.

(d) Complete self-sufficiency in all goods.

9. The Heckscher-Ohlin Theory assumes that factors of production are:

(a) Perfectly mobile between industries within a country.

(b) Perfectly immobile between industries within a country.

(c) Perfectly mobile between countries.

(d) Perfectly immobile between countries.

10. **The Heckscher-Ohlin Theory of Trade is an extension of which earlier trade theory?**
(a) The Theory of Absolute Advantage
(b) The Theory of Comparative Advantage
(c) The Theory of Factor Proportions
(d) The Theory of International Product Life Cycle

1.2.5 - Globalization and New International Trade Theory

1. **Globalization is characterized by:**
(a) The increased integration and interdependence of economies and cultures worldwide.
(b) A focus on promoting self-sufficiency and domestic industries.
(c) A decrease in international trade and cross-border transactions.
(d) A shift towards protectionist trade policies.

2. **The New International Trade Theory emphasizes the role of:**
(a) Factor endowments and comparative advantage.
(b) Economies of scale and product differentiation.
(c) Changes in consumer preferences and tastes.
(d) Tariffs and trade barriers.

3. **Globalization has led to an increase in international trade due to:**
(a) Reduced barriers to trade and investment.
(b) A decline in the importance of multinational corporations.
(c) A decrease in cross-border communication and technology.
(d) An increase in self-sufficiency and closed economies.

4. **The New International Trade Theory suggests that in certain industries with significant economies of scale, the world market can support:**
(a) Only a limited number of firms.
(b) A large number of small firms.
(c) Only domestic firms and not foreign firms.
(d) A single monopolistic firm.

5. **Globalization has led to increased cross-border movement of:**
   (a) Labor and capital.
   (b) Trade barriers and restrictions.
   (c) Domestic industries and subsidies.
   (d) Agricultural products and raw materials.

6. **The New International Trade Theory suggests that firms can gain a competitive advantage and achieve economies of scale through:**
   (a) Expanding their domestic market share
   (b) Limiting their product range to specialized niche markets.
   (c) Engaging in international trade and global operations.
   (d) Reducing their production output to maintain high-quality standards

7. **Globalization refers to the:**
   (a) Process of increasing trade barriers and protectionist measures.
   (b) Integration and interdependence of economies and cultures worldwide.
   (c) Concentration of economic power in the hands of a few multinational corporations
   (d) Isolation of countries from international markets and trade.

8. **Which of the following factors has contributed to the growth of globalization in recent decades?**
   (a) A decline in international trade and investment.
   (b) A shift towards protectionist trade policies.
   (c) Advancements in technology and communication.
   (d) An increase in trade barriers and tariffs.

9. **The New International Trade Theory emphasizes the importance of which factor in explaining international trade patterns?**
   (a) Factor endowments, such as labor and capital.
   (b) Differences in consumer preferences and tastes.
   (c) The absolute advantage of countries in specific industries.
   (d) Historical trade patterns and colonial legacies.

10. **Globalization has led to increased:**
    (a) Economic self-sufficiency and reliance on domestic resources.
    (b) Isolationism and reduced international cooperation.
    (c) Income inequality and poverty in developing countries.
    (d) Interconnectedness and cross-border flows of goods, services, and capital.

Additional Question Bank

1.1 - Introduction

1. **Which theory suggests that a country should specialize in producing goods and services in which it has an absolute advantage?**
   (a) Mercantilism (b) Comparative advantage
   (c) Absolute advantage (d) Factor proportion theory

2. **The theory of comparative advantage was developed by:**
   (a) David Ricardo (b) Adam Smith (c) John Maynard Keynes (d) Karl Marx

3. **According to the theory of comparative advantage, a country should specialize in producing goods and services in which it has a comparative advantage, which means:**
   (a) It can produce more units of the good with the same amount of resources compared to another country
   (b) It can produce the good using fewer resources compared to another Country
   (c) It has a higher income level than another country.
   (d) It has a larger population than another country

4. **The Heckscher-Ohlin theory suggests that international trade occurs due to differences in:**
   (a) Government policies and regulations (b) Technological advancements
   (c) Factor endowments (such as labor and capital) (d) Exchange rates

5. **According to the new trade theory, what is the role of economies of scale in international trade?**
   (a) Economies of scale have no impact on international trade.
   (b) Countries with large economies of scale have a comparative advantage in all industries.

(c) Economies of scale allow firms to reduce production costs and gain a competitive advantage in international markets.

(d) Small economies are at a disadvantage in international trade due to the lack of economies of scale.

1.2 - Important Theories of International Trade

1. **The theory that suggests countries should specialize in producing goods and services in which they have a comparative advantage is known as:**

(a) Absolute advantage theory
(b) Mercantilism
(c) Comparative advantage theory
(d) Factor proportion theory

2. **The principle of comparative advantage was first proposed by:**

(a) Adam Smith
(b) David Ricardo
(c) John Maynard Keynes
(d) Karl Marx

3. **According to the theory of absolute advantage, a country, should specialize in producing goods in which it can:**

(a) Produce the most units of a good with the same amount of resources
(b) Produce the highest-quality goods
(c) Produce goods that are in high demand internationally
(d) Produce goods that have the highest market value

4. **The Heckscher-Ohlin theory suggests that international trade occurs due to differences in:**

(a) Technology and innovation
(b) Government policies and regulations
(c) Factor endowments (such as labor and capital)
(d) Cultural preferences for certain products

5. **The new trade theory emphasizes the role of ……………… in explaining international trade patterns.**

(a) Factor endowments
(b) Economies of scale
(c) Comparative advantage
(d) Tariffs and trade barriers

1.2.1 - The Mercantilists' View of International Trade

1. **The Mercantilists believed that the wealth and power of a nation were primarily determined by:**
   (a) The level of technology and innovation
   (b) The size of its population
   (c) The amount of gold and silver it possessed
   (d) The extent of its agricultural resources

2. **According to Mercantilists, a favorable balance of trade can be achieved by:**
   (a) Exporting more goods than importing
   (b) Importing more goods than exporting
   (c) Maintaining an equal value of exports and imports
   (d) Eliminating trade with other nations

3. **Mercantilists believed that a country should:**
   (a) Encourage free trade with other nations
   (b) Focus on producing goods with the highest domestic demand
   (c) Accumulate as much gold and silver as possible through trade
   (d) Import more than it exports to stimulate economic growth

4. **Which of the following was a policy measure commonly advocated by Mercantilists to promote exports and discourage imports?**
   (a) Imposing tariffs and import restrictions
   (b) Eliminating all taxes and tariffs on trade
   (c) Encouraging foreign investment in domestic industries
   (d) Signing free trade agreements with other nations

5. **The Mercantilists' view of international trade dominated economic thinking during which historical period?**
   (a) The late 20th century (b) The Renaissance and the early modern period
   (c) The Industrial Revolution (d) The post-World War II era

1.2.2 - The Theory of Absolute Advantage

1. **The theory of absolute advantage was first introduced by:**
(a) Adam Smith (b) David Ricardo (c) John Maynard Keynes (d) Karl Marx

2. **According to the theory of absolute advantage, a country should specialize in producing goods or services in which it can:**
(a) Produce the most units of a good with the same amount of resources
(b) Produce the highest-quality goods or services
(c) Produce goods or services that have the highest market demand
(d) Produce goods or services with the highest profit margins

3. **The theory of absolute advantage suggests that international trade is beneficial because it allows countries to:**
(a) Import goods and services they cannot produce domestically
(b) Eliminate competition in the global market
(c) Increase government revenue through tariffs and trade barriers
(d) Reduce their dependence on foreign resources

4. **According to Adam Smith's absolute advantage theory, trade between two countries can lead to mutual gains as long as:**
(a) One country has an absolute advantage in all goods and services
(b) Both countries have an absolute advantage in the same goods and services
(c) Each country has an absolute advantage in different goods and services
(d) Both countries have an equal level of economic development

5. **The theory of absolute advantage is based on the idea that countries should engage in trade to:**
(a) Maximize government revenue
(b) Achieve a favorable balance of trade
(c) Promote self-sufficiency and economic isolation
(d) Benefit from specialization and exchange of goods and services

1.2.3 - The Theory of Comparative Advantage

1. **The theory of comparative advantage was formulated by:**
   (a) Adam Smith (b) David Ricardo (c) John Maynard Keynes (d) Karl Marx

2. **According to the theory of comparative advantage, a country should specialize in producing goods or services in which it has a comparative advantage, which means:**
   (a) It can produce more units of the good with the same amount of resources compared to another country
   (b) It can produce the good using fewer resources compared to another country
   (c) It has a higher income level than another country
   (d) It has a larger population than another country

3. **The theory of comparative advantage suggests that international trade is beneficial because it allows countries to:**
   (a) Eliminate competition in the global market
   (b) Increase government revenue through tariffs and trade barriers
   (c) Import goods and services they cannot produce efficiently
   (d) Reduce their dependence on foreign resources

4. **According to the theory of comparative advantage, trade between two countries can lead to mutual gains as long as:**
   (a) One country has a comparative advantage in all goods and services
   (b) Both countries have a comparative advantage in the same goods and services
   (c) Each country has a comparative advantage in different goods and services
   (d) Both countries have an equal level of economic development

5. **The theory of comparative advantage is based on the idea that countries should engage in trade to:**
   (a) Maximize government revenue
   (b) Achieve a favorable balance of trade
   (c) Promote self-sufficiency and economic isolation
   (d) Benefit from specialization and exchange of goods and services

1.2.4 - The Heckscher-Ohlin Theory of Trade

1. **The Heckscher-Ohlin theory of trade suggests that international trade occurs due to differences in:**
   (a) Technology and innovation
   (b) Government policies and regulations
   (c) Factor endowments (such as labor and capital)
   (d) Cultural preferences for certain products

2. **According to the Heckscher-Ohlin theory, a country will export goods that use relatively:**
   (a) Abundant factors of production
   (b) Scarce factors of production
   (c) Expensive factors of production
   (d) Labor-intensive factors of production

3. **The Heckscher-Ohlin theory predicts that a labor-abundant country will export goods that are:**
   (a) Labor-intensive
   (b) Capital-intensive
   (c) High-tech and innovative
   (d) Raw materials and commodities

4. **The Heckscher-Ohlin theory suggests that international trade can lead to:**
   (a) Income equality between countries
   (b) Factor price equalization
   (c) A decrease in factor mobility
   (d) Increased trade barriers and protectionism

5. **The Heckscher-Ohlin theory assumes that factors of production are:**
   (a) Immobile between industries within a country
   (b) Perfectly mobile between industries within a country
   (c) Mobile between countries but immobile within a country
   (d) Immobile between countries and industries

1.2.5 - Globalization and New International Trade Theory

1. **Globalization refers to the:**
   (a) Isolation of countries from the global economy
   (b) Integration and interdependence of countries in the global economy

(c) Adoption of protectionist trade policies

(d) Establishment of regional trade blocs

2. **The new international trade theory emphasizes the role of in explaining trade patterns and advantages:**

(a) Comparative advantage

(b) Factor endowments

(c) Economies of scale and product differentiation

(d) Tariffs and trade barriers

3. **According to the new trade theory, firms that produce unique products with advanced technology and innovation can gain a competitive advantage due to:**

(a) Comparative advantage
(b) Lower production costs

(c) Economies of scale and first-mover advantage
(d) Government subsidies

4. **The new international trade theory suggests that free trade can lead to:**

(a) Decreased competition and monopolistic behavior

(b) Inefficiency in resource allocation

(c) Stagnation of economic growth

(d) Increased global prosperity through specialization and economies of scale

5. **Which of the following is a potential drawback of globalization in terms of income distribution?**

(a) Increased income inequality between countries

(b) Decreased income inequality within countries

(c) A shift in manufacturing jobs from developed to developing countries

(d) The equal distribution of wealth among all countries

ANSWERS (Unit 1):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	B	4.	C	5.	B

1.2 – Important Theories of International Trade

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	C	4.	B	5.	A
6.	B	7.	A	8.	C	9.	D	10.	D

1.2.1 – The Mercantilists' View of International Trade

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	D	5.	C
6.	B	7.	A	8.	B	9.	A	10.	C

1.2.2 – The Theory of Absolute Advantage

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	B	5.	A
6.	B	7.	A	8.	D	9.	B	10.	C
11.	B	12.	A	13.	D	14.	B	15.	C

1.2.3 – The Theory of Comparative Advantage

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	B	3.	C	4.	C	5.	C
6.	B	7.	A	8.	D	9.	C	10.	D

1.2.4 – The Heckscher-Ohlin Theory of Trade

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	A	4.	A	5.	C
6.	C	7.	B	8.	A	9.	A	10.	B

1.2.5 – Globalization and New International Trade Theory

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	B	3.	A	4.	A	5.	A
6.	C	7.	B	8.	C	9.	B	10.	D

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	B	4.	C	5.	C

1.2 – Important Theories of International Trade

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	A	4.	C	5.	B

1.2.1 – The Mercantilists' View of International Trade

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	C	4.	A	5.	B

1.2.2 – The Theory of Absolute Advantage

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	A	4.	C	5.	D

1.2.3 – The Theory of Comparative Advantage

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	C	4.	C	5.	D

1.2.4 – The Heckscher-Ohlin Theory of Trade

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	A	4.	B	5.	B

1.2.5 – Globalization and New International Trade Theory

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	D	5.	C

Unit 2: The Instruments of Trade Policy

1.1 - Introduction

1. **Which of the following is an example of a tariff as an instrument of trade policy?**
(a) Government subsidies to promote exports.
(b) Imposing a limit on the quantity of imports.
(c) Placing a tax on imported goods."
(d) Establishing preferential trade agreements with partner countries.

2. **The purpose of imposing import quotas as an instrument of trade policy is to:**
(a) Generate revenue for the government.
(b) Reduce the trade deficit and promote exports.
(c) Encourage competition among domestic producers.
(d) Restrict the quantity of imports entering the country.

3. **Which of the following is an example of a non-tariff barrier to trade?**
(a) Import quotas. (b) Export subsidies.
(c) Free trade agreements. (d) Preferential trade arrangements.

4. **An export subsidy is an instrument of trade policy that:**
(a) Reduces the cost of imported goods for consumers.
(b) Provides financial incentives to domestic producers for exporting.
(c) Limits the quantity of goods that can be exported.
(d) Reduces taxes on imported goods to promote exports.

5. **Which of the following trade policy instruments is aimed at promoting free trade and reducing barriers to International commerce?**
(a) Export subsidies. (b) Import quotas
(c) Preferential trade agreements. (d) Dumping duties.

6. **Tariffs are a form of trade policy that involves:**
(a) Providing subsidies to domestic industries to promote exports.
(b) Placing a tax on imported goods to raise their prices.

(c) Setting a maximum limit on the quantity of imports allowed.

(d) Facilitating the free flow of goods and services across borders.

7. **Quotas are a trade policy instrument that involves:**

(a) Providing financial assistance to domestic exporters.

(b) Imposing a tax on exports to discourage foreign buyers.

(c) Setting a maximum limit on the quantity of imports allowed.

(d) Removing all restrictions on the quantity of imports.

8. **Export subsidies are a trade policy tool that is intended to:**

(a) Encourage domestic consumption of imported goods.

(b) Raise revenue for the government from foreign buyers.

(c) Discourage domestic production and protect local industries.

(d) Provide financial assistance to domestic exporters.

9. **Voluntary Export Restraints (VERS) are a trade policy measure in which:**

(a) Governments impose restrictions on the quantity of imports from specific countries.

(b) Exporting countries voluntarily limit the quantity of their exports to a foreign country.

(c) Domestic industries impose tariffs on imported inputs to protect local suppliers.

(d) Governments impose quotas, on both imports and exports to maintain trade balance.

10. **Dumping is a trade policy practice where a foreign company:**

(a) Sells goods in the domestic market at prices lower than the production cost.

(b) Imports goods in large quantities to gain a competitive advantage.

(c) Reduces the quality of exported goods to increase profits.

(d) Colludes with domestic producers to control prices in the market.

1.2 - Tariffs

1. **What are tariffs in the context of trade policy?**

(a) Subsidies provided to domestic industries for exports.

(b) Restrictions on the import of certain goods to protect domestic industries.

(c) Trade agreements between countries to promote free trade.

(d) Financial incentives offered to foreign companies to invest in the domestic market.

2. **The main objective of implementing tariffs is to:**

(a) Encourage free trade and promote global economic integration.

(b) Increase government revenue through import taxes.

(c) Improve the efficiency of domestic industries.

(d) Limit the export of certain goods to other countries.

3. **Ad valorem tariffs are calculated based on:**

(a) The quantity of imported goods.

(b) The weight of imported goods.

(c) The value or price of imported goods.

(d) The environmental impact of imported goods.

4. **Specific tariffs are calculated based on:**

(a) The quantity of imported goods.

(b) The weight of imported goods.

(c) The value or price of imported goods.

(d) The environmental impact of imported goods.

5. **The imposition of tariffs can lead to:**

(a) Lower consumer prices for imported goods.

(b) Increased domestic consumption of imported goods.

(c) A decrease in domestic production and employment in import-competing industries.

(d) Enhanced global economic integration and international cooperation.

6. **A tariff is a:**

(a) Payment made by the government to domestic producers to boost exports.

(b) Tax levied on imports, increasing their cost to the importing country.

(c) Subsidy provided by the government to foreign producers to promote imports.

(d) Price control mechanism used to stabilize domestic market prices.

7. **The primary purpose of imposing tariffs is to:**
(a) Encourage international cooperation and free trade.
(b) Increase government revenue through import taxes.
(c) Promote fair competition and protect domestic industries.
(d) Discourage domestic consumption of certain goods.

8. **Specific tariffs are levied as a:**
(a) Fixed amount per unit of imported goods.
(b) Percentage of the value of imported goods.
(c) Payment made by the exporting country to the importing country.
(d) Subsidy provided by the exporting country to domestic producers.

9. **Ad valorem tariffs are levied as a:**
(a) Fixed amount per unit of imported goods.
(b) Percentage of the value of imported goods.
(c) Payment made by the exporting country to the importing country.
(d) Subsidy provided by the exporting country to domestic producers.

10. **Which of the following is a potential negative consequence of imposing tariffs?**
(a) Encouraging domestic industries to become more competitive and efficient.
(b) Increasing government revenue through import taxes.
(c) Raising the cost of living for consumers due to higher prices on imported goods.
(d) Promoting international cooperation and free trade.

1.2.1 - Forms of Import Tariffs

1. **Ad valorem tariffs are expressed as a percentage of the:**
(a) Importing country's GDP. (b) Value of the imported goods.
(c) Number of units of the imported goods. (d) Exporting country's currency value.

2. **Specific tariffs are imposed as a fixed amount per:**
(a) Unit of the imported goods.
(b) Unit of the exporting country's currency,
(c) Unit of the importing country's GDP.
(d) Unit of the exporting country's GDP.

3. **Compound tariffs are a combination of:**
   (a) Specific tariffs and import quotas.
   (b) Ad valorem tariffs and export subsidies.
   (c) Ad valorem tariffs and specific tariffs.
   (d) Import quotas and export quotas.

4. **Which of the following is an example of a revenue tariff?**
   (a) A tariff imposed to protect domestic industries from foreign competition.
   (b) A tariff imposed to discourage the consumption of specific goods.
   (c) A tariff imposed to generate government revenue from imports.
   (d) A tariff imposed by an exporting country on its own goods.

5. **Which type of import tariff involves reducing the tariff rate as the volume of imports increases?**
   (a) Compound tariff (b) Specific tariff (c) Ad valorem tariff (d) Sliding-scale tariff

<u>**I. Specific Tariff:**</u>

1. **What is a specific tariff?**
   (a) A tax levied on imports that is calculated as a percentage of the value of the imported goods.
   (b) A tax levied on exports by the exporting country.
   (c) A tax levied on imports that is fixed amount per unit of the imported goods.
   (d) A tax levied on the income of domestic producers.

2. **A specific tariff is a type of import tariff that is imposed as a:**
   (a) Fixed amount per unit of the exported goods.
   (b) Fixed amount per unit of the imported goods.
   (c) Percentage of the value of the exported goods.
   (d) Percentage of the value of the imported goods.

3. **A specific tariff is a type of import tariff that is:**
   (a) Imposed as a fixed amount per unit of the imported goods.
   (b) Expressed as a percentage of the value of the exported goods.
   (c) A payment made by the importing country, to the exporting country.
   (d) Applied to all goods uniformly, regardless of their origin.

II. Ad valorem tariff:

1. **An ad valorem tariff is a type of import tariff that is:**
(a) Imposed as a fixed amount per unit of the imported goods.
(b) Expressed as a percentage of the value of the imported goods.
(c) A payment made by the exporting country to the importing country.
(d) Applied to all goods uniformly, regardless of their origin.

1.2.2 - Effects of Tariffs

1. **What is the effect of tariffs on domestic producers?**
(a) Encourages competition (b) Decreases efficiency
(c) Increases efficiency (d) None of the above

2. **What is the effect of tariffs on consumers?**
(a) Decreases the price of imported goods
(b) Increases the price of imported goods
(c) Does not affect the price of imported goods
(d) None of the above

3. **What is the effect of tariffs on international trade?**
(a) Encourages free trade (b) Decreases imports
(c) Increases exports (d) None of the above

4. **What is the effect of tariffs on government revenue?**
(a) Decreases government revenue (b) Increases government revenue
(c) Has no effect on government revenue (d) None of the above

1.3 - Non-Tariff Measures (NTMS)

1. **What are Non-tariff measures (NTMs)?**
(a) Barriers to trade (b) Taxes on international trade
(c) Regulations on international trade (d) None of the above

2. **What is the purpose of non-tariff measures (NTMs)?**
(a) To increase competition (b) To decrease competition
(c) To protect domestic industries (d) None of the above

3. **What are some examples of non-tariff measures (NTMs)?**
(a) Quotas (b) Licenses (c) Quality standards (d) All of the above

4. **What is the effect of non-tariff measures (NTMs) on international trade?**
(a) Encourages free trade
(b) Increases imports
(c) Decreases exports
(d) Can either increase or decrease imports and exports depending on the specific measure

5. **What are non-tariff measures (NTMs)?**
(a) Taxes on imported goods
(b) Regulations, standards, and procedures that impact trade
(c) Trade agreements between countries
(d) None of the above

6. **What is the effect of NTMs on trade?**
(a) Increases trade barriers (b) Encourages free trade
(c) Has no effect on trade (d) None of the above

7. **Why do countries use NTMs?**
(a) To protect domestic industries (b) To promote free trade
(c) To improve product quality and safety (d) None of the above

8. **What are some examples of NTMs?**
(a) Tariffs and quotas
(b) Export restrictions and subsidies
(c) Product standards and labeling requirements
(d) None of the above

<u>I. Technical Measures:</u>

1. **What are technical measures in international trade?**
(a) Regulations related to the technical aspects of products
(b) Import taxes on technical products

(c) Technical agreements between trading partners
(d) None of the above

2. **Why are technical measures used in trade?**
(a) To limit the import of particular products
(b) To ensure that imported products meet local standards
(c) To reduce competition from foreign products
(d) None of the above

3. **What are some examples of technical measures?**
(a) Product labeling and packaging requirements.
(b) Safety and environmental standards
(c) Chemical content and composition restrictions
(d) All of the above

4. **What is the impact of technical measures on trade?**
(a) Increases competition from foreign products
(b) Reduces competition from foreign products
(c) Has no impact on competition from foreign products
(d) None of the above

II. Non-technical Measures:

1. **What are non-technical measures in international trade?**
(a) Regulations related to the technical aspects of products
(b) Regulations not directly related to the technical aspects of products
(c) Import taxes on non-technical products
(d) None of the above

2. **Why are non-technical measures used in trade?**
(a) To limit the import of particular products
(b) To promote free and fair trade
(c) To reduce competition from foreign products
(d) None of the above

3. **What are some examples of non-technical measures?**
(a) Licensing requirements for foreign companies
(b) Government procurement policies
(c) Investment restrictions
(d) All of the above

4. **What is the impact of non-technical measures on trade?**
(a) Increases competition from foreign products
(b) Reduces competition from foreign products
(c) Has no impact on competition from foreign products
(d) Depends on the specific regulation

1.3.1 - Technical Measures

1. **Which of the following is an example of a technical measure in international trade?**
(a) Import quotas on foreign cars
(b) Requirements for product safety labeling
(c) Tariffs on textiles from foreign countries
(d) Subsidies for domestic agricultural producers

2. **What is the purpose of technical measures in international trade?**
(a) To limit the import of foreign products
(b) To ensure that imported products meet local standards
(c) To promote fair competition between countries
(d) None of the above

3. **Which of the following is an example of a technical measure related to environmental standards?**
(a) Restrictions on the use of hazardous chemicals in manufacturing
(b) Requirements for product labeling and packaging
(c) Quotas on the import of foreign textiles
(d) Subsidies for domestic energy producers

4. How can technical measures impact trade between countries?

(a) They can increase competition from foreign products

(b) They can reduce competition from foreign products

(c) They can have no impact on competition from foreign products

(d) It depends on the specific technical measure

I. Sanitary and Phytosanitary (SPS) Measures:

1. What are Sanitary and Phytosanitary (SPS) measures?

(a) Technical measures related to environmental standards

(b) Regulations related to the technical aspects of products

(c) Regulations related to the health and safety of humans, animals, and plants

(d) None of the above

2. What is the purpose of SPS measures?

(a) To reduce competition from foreign products

(b) To increase the import of foreign products

(c) To protect human, animal, and plant health

(d) None of the above

3. Which of the following is an example of an SPS measure?

(a) A restriction on the import of foreign textiles to protect domestic textile manufacturers

(b) A requirement for imported fruits to be free from a certain pest

(c) A tax on foreign imports of cars to promote the domestic auto industry

(d) None of the above

4. How can SPS measures impact trade between countries?

(a) They can reduce competition from foreign products

(b) They can increase competition from foreign products

(c) They can have no impact on competition from foreign products

(d) It depends on the specific SPS measure

II. Technical Barriers To Trade (TBT):

1. **What are Technical Barriers to Trade (TBT)?**
   (a) Regulations related to the health and safety of humans, animals, and plants
   (b) Regulations related to the technical aspects of products
   (c) Regulations related to the environmental standards
   (d) None of the above

2. **What is the purpose of Technical Barriers to Trade?**
   (a) To restrict or limit importation of certain products
   (b) To promote fair competition between countries
   (c) To ensure that imported products meet local technical standards
   (d) All of the above

3. **Which of the following is an example of a Technical Barrier to Trade?**
   (a) Import quotas on foreign textiles
   (b) Requirements for labeling and packaging of pharmaceutical products
   (c) Tariffs on imported steel
   (d) Subsidies for domestic manufacturers

4. **How can Technical Barriers to Trade impact trade between countries?**
   (a) They can increase competition from foreign products
   (b) They can reduce competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific Technical Barrier to Trade

1.3.2 - Non-technical Measures

1. **What are non-technical measures in trade?**
   (a) Regulations related to the technical aspects of products
   (b) Regulations related to the health and safety of humans, animals, and plants
   (c) Regulations related to non-tariff barriers, such as quotas and subsidies
   (d) None of the above

2. **What is the purpose of non-technical measures?**
(a) To promote fair competition between countries
(b) To restrict or limit importation of certain products
(c) To ensure that imported products meet safety and quality standards
(d) All of the above

3. **Which of the following is an example of a non-technical measure?**
(a) Requirements for product labeling (b) Import quotas
(c) Product testing requirements (d) All of the above

4. **How can non-technical measures impact trade between countries?**
(a) They can reduce competition from foreign products
(b) They can increase competition from foreign products
(c) They can have no impact on competition from foreign products
(d) It depends on the specific non-technical measure

<u>I. Import Quotas:</u>

1. **What is an import quota?**
(a) A tax imposed on imported goods
(b) A limit on the quantity of a particular product that can be imported
(c) A requirement to label imported products
(d) None of the above

2. **What is the purpose of import quotas?**
(a) To promote fair competition between countries
(b) To restrict or limit importation of certain products
(c) To ensure that imported products meet safety and quality standards
(d) None of the above

3. **How can import quotas impact trade between countries?**
(a) They can reduce competition from foreign products
(b) They can increase competition from foreign products
(c) They can have no impact on competition from foreign products
(d) It depends on the specific import quota

4. **Can import quotas be challenged under international trade rules?**
   (a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
   (b) No, import quotas cannot be challenged under international trade rules
   (c) It depends on the specific country and their trade agreements
   (d) None of the above

II. Price Control Measures:

1. **What are price control measures in trade?**
   (a) Regulation's that control the quality and safety of products
   (b) Regulations that control the prices of goods and services
   (c) Regulations that control the quantity of imports and exports
   (d) None of the above

2. **What is the purpose of price control measures?**
   (a) To promote fair competition between countries
   (b) To restrict or limit importation of certain products
   (c) To ensure that imported products meet safety and quality standards
   (d) To protect consumers from unfairly high prices

3. **How can price control measures impact trade between countries?**
   (a) They can reduce competition from foreign products
   (b) They can increase competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific price control measure

4. **Can price control measures be challenged under international trade rules?**
   (a) Yes, they can be challenged under the rules set by the World. Trade Organization (WTO)
   (b) No, price control measures cannot be challenged under international trade rules
   (c) It depends on the specific country and their trade agreements
   (d) None of the above

III. Non-automatic Licensing and Prohibitions:

1. **What are non-automatic licensing and prohibitions in trade?**
   (a) Regulations that control the quality and safety of products
   (b) Regulations that require special licenses for certain imported goods.
   (c) Regulations that restrict or prohibit the import or export of certain products
   (d) None of the above

2. **What is the purpose of non-automatic licensing and prohibitions?**
   (a) To promote fair competition between countries
   (b) To restrict or limit importation of certain products
   (c) To ensure that imported products meet safety and quality standards
   (d) To protect national security or cultural heritage

3. **How can non-automatic licensing and prohibitions impact trade between countries?**
   (a) They can reduce competition from foreign products
   (b) They can increase competition from foreign products
   (c) They can have no impact on competition from foreign products
   (d) It depends on the specific non-automatic licensing or prohibition

4. **Can non-automatic licensing and prohibitions be challenged under international trade rules?**
   (a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
   (b) No, non-automatic licensing and prohibitions cannot be challenged under international trade rules
   (c) It depends on the specific country and their trade agreements
   (d) None of the above

IV. Financial Measures:

1. **What are financial measures in trade?**
   (a) Regulations that control the quality and safety of products
   (b) Regulations that control the prices of goods and services
   (c) Regulations that restrict or limit the flow of capital between countries
   (d) None of the above

2. What is the purpose of financial measures in trade?

(a) To promote fair competition between countries
(b) To restrict or limit importation of certain products
(c) To protect domestic companies from foreign investment
(d) To control the flow of capital for economic stability

3. How can financial measures impact trade between countries?

(a) They can reduce competition from foreign products
(b) They can increase competition from foreign products
(c) They can limit the ability of foreign companies to invest in a market
(d) None of the above

4. Can financial measures be challenged under international trade rules?

(a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
(b) No, financial measures cannot be challenged under international trade rules
(c) It depends on the specific country and their trade agreements
(d) None of the above

V. Measures Affecting Competition:

1. What are measures affecting competition in trade?

(a) Regulations that control the quality and safety of products
(b) Regulations that control the prices of goods and services
(c) Regulations that restrict or limit the ability of companies to compete in a market
(d) None of the above

2. What is the purpose of measures affecting competition in trade?

(a) To promote fair competition between countries
(b) To restrict or limit importation of certain products
(c) To protect domestic companies from foreign competition
(d) To prevent anti-competitive behavior and promote consumer welfare

3. How can measures affecting competition impact trade between countries?

(a) They can reduce competition from foreign products
(b) They can increase competition from foreign products

(c) They can limit the ability of foreign companies to compete in a market
(d) None of the above

4. **Can measures affecting competition be challenged under international trade rules?**
(a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)
(b) No, measures affecting competition cannot be challenged under international trade rules
(c) It depends on the specific country and their trade agreements
(d) None of the above

VI. Government Procurement Policies:

1. **What are government procurement policies in trade?**
(a) Policies that regulate the quality and safety of products purchased by the government
(b) Policies that regulate the prices paid for products purchased by the government
(c) Policies that regulate the process for government contracts and purchases
(d) None of the above

2. **What is the purpose of government procurement policies in trade?**
(a) To promote fair competition between companies for government contracts
(b) To restrict or limit importation of certain products purchased by the government
(c) To protect domestic suppliers from foreign competition for government contracts.
(d) To ensure transparency and accountability in government procurement processes

3. **How can government procurement policies impact trade between countries?**
(a) They can restrict competition from foreign suppliers for government contracts
(b) They can increase competition from foreign suppliers for government contracts
(c) They can limit the ability of foreign suppliers to participate in government procurement processes
(d) None of the above

4. **Can government procurement policies be challenged under international trade rules?**
(a) Yes, they can be challenged under the rules set by the World Trade Organization (WTO)

(b) No, government procurement policies cannot be challenged under international trade rules

(c) It depends on the specific country and their trade agreements

(d) None of the above

VII. Trade-Related Investment Measures:

1. What are Trade-Related Investment Measures, (TRIMS)?

(a) Policies that promote free trade and open markets

(b) Policies that impose restrictions on trade and investments

(c) Policies that facilitate foreign direct investment (FDI)

(d) Policies that encourage the import of raw materials

2. Which organization oversees the Agreement on Trade-Related Investment Measures (TRIMS)?

(a) International Monetary Fund (IMF)
(b) World Trade Organization (WTO)
(c) United Nations (UN)
(d) World Bank

3. How do Trade-Related Investment Measures impact international trade?

(a) They promote FDI and boost trade flows

(b) They create barriers to trade and deter foreign investments

(c) They only affect domestic investments, not international trade

(d) They have no impact on trade or investment

4. Which of the following is an example of a TRIM?

(a) Export subsidies to domestic producers

(b) Tariffs on imported goods

(c) Preferential treatment for local investors over foreign investors

(d) Reducing bureaucratic procedures for all investors

VIII. Distribution Restrictions:

1. What do distribution restrictions in international trade refer to?

(a) Policies that promote the free flow of goods and services across borders

(b) Policies that restrict the distribution of goods and services within a country

(c) Policies that encourage foreign direct investment (FDI)

(d) Policies that reduce import tariffs

2. **Which of the following is an example of a distribution restriction?**
(a) Export subsidies to domestic producers
(b) Eliminating import quotas on specific products,
(c) Licensing requirements for the sale of certain goods
(d) Reducing bureaucratic procedures for exporters

3. **How do distribution restrictions impact trade and investment?**
(a) They promote cross-border trade and foreign investments
(b) They facilitate the distribution of goods and services domestically
(c) They create barriers to entry for foreign companies in the domestic market
(d) They have no impact on trade or investment

4. **Which international organization advocates for reducing distribution restrictions and trade barriers?**
(a) International Monetary Fund (IMF)
(b) World Trade Organization (WTO)
(c) United Nations (UN)
(d) World Bank

IX. Restriction on Post-sales Services:

1. **What do restrictions on post-sales services in international trade refer to?**
(a) Policies that promote after-sales services for domestic products
(b) Policies that regulate the provision of after-sales services for imported products
(c) Policies that encourage foreign companies to invest in service sectors
(d) Policies that reduce import tariffs on services

2. **Which of the following is an example of a restriction on post-sales services?**
(a) Allowing foreign service providers to operate without any restrictions
(b) Requiring special permits for domestic service providers to offer services
(c) Providing tax incentives for companies offering after-sales services
(d) Implementing a streamlined process for product imports

3. **How can restrictions on post-sales services impact international trade?**
(a) They promote the free flow of services across borders
(b) They enhance competition and efficiency in service sectors

(c) They create barriers for Foreign Service providers in the domestic market
(d) They have no impact on trade or investment

4. Which international trade principle do restrictions on post-sales services violate?
(a) Most Favored Nation (MFN) treatment (b) National treatment
(c) Export-oriented industrialization (d) Import substitution

X. Administrative Procedures:

1. What do administrative procedures in international trade refer to?
(a) Policies that promote the free flow of goods and services across borders
(b) Processes and formalities related to customs and trade regulations.
(c) Policies that encourage foreign direct investment (FDI)
(d) Policies that reduce import tariffs

2. Which of the following is an example of an administrative procedure in international trade?
(a) Reducing trade barriers for specific products
(b) Implementing export subsidies for domestic producers
(c) Conducting customs inspections and document verification
(d) Providing tax incentives to foreign investors

3. How can streamlined administrative procedures impact international trade?
(a) They increase bureaucracy and slow down trade flows
(b) They promote efficiency and facilitate cross-border transactions
(c) They create barriers to entry for foreign companies
(d) They have no impact on trade or investment

4. Which international organization advocates for simplifying administrative procedures and reducing trade barriers?
(a) International Monetary Fund (IMF) (b) World Trade Organization (WTO)
(c) United Nations (UN) (d) World Bank

XI. Rules of origin:

1. **What are Rules of Origin in international trade?**
   (a) Guidelines for exporting goods to foreign countries
   (b) Criteria used to determine the country of origin of goods
   (c) Standards for product quality and safety in international trade
   (d) Guidelines for customs valuation of imported goods

2. **Why are Rules of Origin important in trade agreements?**
   (a) They encourage transshipment of goods between countries
   (b) They determine the quality and safety standards of imported goods
   (c) They prevent trade fraud and ensure fair trade practices
   (d) They only apply to certain types of services, not goods

3. **Which of the following is an example of a Rule of Origin?**
   (a) Reducing import tariffs on specific products.
   (b) Conducting customs inspections at the border
   (c) Requiring a certain percentage of value-added to be produced locally
   (d) Implementing export quotas for certain industries

4. **How do Rules of Origin affect global supply chains?**
   (a) They promote reshoring of manufacturing activities to domestic markets
   (b) They encourage companies to offshore production to low-cost countries
   (c) They have no impact on global supply chains
   (d) They only apply to services, not manufacturing activities

XII. Safeguard Measures:

1. **What are Safeguard Measures in international trade?**
   (a) Permanent trade restrictions on certain products
   (b) Temporary trade remedies to protect domestic industries from import surges
   (c) Preferential trade agreements between two or more countries
   (d) Subsidies provided by governments to support exports

2. **When can a country apply Safeguard Measures under the WTO rules?**
   (a) When imports are cheaper than domestically produced goods
   (b) When imports exceed a certain percentage of total trade

(c) When domestic industries face serious injury or threat due to import surges
(d) When there is a need to promote free trade and open markets

3. **Which of the following is an example of a Safeguard Measure?**
(a) Reducing import tariffs to boost international trade
(b) Imposing quotas on imported goods to protect domestic industries
(c) Providing financial incentives for companies engaged in export activities
(d) Implementing trade facilitation measures to streamline customs procedures

4. **How long can Safeguard Measures typically be in place under WTO rules?**
(a) Indefinitely until a bilateral agreement is reached
(b) Up to one year, with a possible extension to three years in exceptional cases
(c) Until the domestic industry completely recovers from the import surge
(d) Until all import duties are paid by the importing companies

XIII. Embargos:

1. **What are embargos in international trade?**
(a) Temporary trade remedies to protect domestic industries
(b) Customs duties imposed on specific imported goods
(c) Government-imposed restrictions that prohibit or limit trade with a specific country
(d) Preferential trade agreements between multiple countries.

2. **Why do countries impose embargos in international trade?**
(a) To promote free trade and open markets
(b) To encourage cross-border investments
(c) To express disapproval or exert pressure on a targeted country
(d) To streamline customs procedures for faster trade transactions

3. **Which of the following is an example of an embargo?**
(a) Imposing import tariffs on foreign products
(b) Implementing trade facilitation measures to improve customs procedures
(c) Prohibiting all trade with a specific country
(d) Signing a free trade agreement with neighboring nations

4. **How do embargos impact international trade and economies?**
(a) They promote economic cooperation and growth among nations
(b) They create trade opportunities for targeted countries
(c) They can lead to economic isolation and disruptions in global supply chains
(d) They have no significant impact on trade or economies

1.4 - Export-Related Measures

1. **What are export-related measures in international trade?**
(a) Government policies that restrict the import of specific goods
(b) Actions taken by countries to promote and facilitate exports
(c) Customs duties imposed on imported products
(d) Measures to regulate foreign direct investment (FDI)

2. **Which of the following is an example of an export-related measure?**
(a) Imposing quotas on the import of certain products
(b) Implementing tax incentives for exporters
(c) Prohibiting foreign companies from investing in domestic markets
(d) Reducing trade barriers for specific industries

3. **How can export-related measures benefit a country's economy?**
(a) By restricting foreign competition and protecting domestic industries
(b) By encouraging imports and diversifying the domestic market
(c) By promoting international trade and generating foreign exchange
(d) By reducing the production of goods for domestic consumption

4. **Which of the following is not an export-related measure?**
(a) Export subsidies to support domestic industries
(b) Simplified customs procedures for importers
(c) Establishing export processing zones for manufacturing goods
(d) Imposing import tariffs on foreign products

I. Ban on exports:

1. **What does a ban on exports in international trade signify?**
(a) A complete cessation of all imports and exports
(b) A restriction on the importation of specific goods

(c) A government-imposed prohibition on exporting certain goods
(d) A policy encouraging free trade and open markets

2. **Why might a country impose a ban on exports?**
(a) To promote international trade and economic growth
(b) To maintain an adequate supply of essential goods domestically
(c) To encourage foreign investment and technology transfer
(d) To facilitate the movement of goods across borders

3. **Which of the following is an example of a ban on exports?**
(a) Imposing import duties on specific goods
(b) Implementing trade facilitation measures to expedite customs clearance
(c) Prohibiting the export of certain agricultural products during a food crisis
(d) Signing a free trade agreement with neighboring nations

4. **How can a ban on exports affect international trade relations?**
(a) It fosters stronger economic ties and cooperation among nations
(b) It may lead to trade disputes and strain diplomatic relations
(c) It promotes harmonious trade balance between countries
(d) It has no impact on international trade relations

II. Export Taxes:

1. **What are export taxes in international trade?**
(a) Taxes imposed on imported goods to protect domestic industries
(b) Taxes imposed on goods and services that are exported from a country
(c) Taxes levied on foreign investments in the domestic market
(d) Taxes imposed on the profits of multinational corporations

2. **Why might a government impose export taxes?**
(a) To promote international trade and export-oriented industries
(b) To discourage the export of certain goods and preserve domestic supplies
(c) To encourage foreign investment and technology transfer
(d) To reduce the budget deficit and increase government revenue

3. **Which of the following is an example of an export tax?**
   (a) Subsidizing domestic producers to compete in foreign markets
   (b) Reducing import duties on specific products
   (c) Imposing a tax on the export of raw materials
   (d) Providing financial incentives for companies engaged in export activities

4. **How can export taxes impact a country's economy?**
   (a) They encourage export-oriented industries' and boost international trade
   (b) They promote the export of raw materials and strengthen. domestic industries
   (c) They may lead to reduced export volumes and decreased competitiveness
   (d) They have no significant impact on the economy

III. Export Subsidies and Incentives:

1. **What are export subsidies and incentives in international trade?**
   (a) Taxes imposed on goods and services that are exported from a country
   (b) Financial benefits provided to domestic exporters to support their international trade activities
   (c) Taxes imposed on imported goods to protect domestic industries
   (d) Non-financial barriers that restrict the import of specific products

2. **Why might a government offer export subsidies and incentives to its exporters?**
   (a) To discourage the export of certain goods and preserve domestic supplies
   (b) To promote import-oriented industries and increase trade deficits
   (c) To increase government revenue by taxing exports-
   (d) To enhance the competitiveness of domestic products in the global market

3. **Which of the following is an example of an export incentive?**
   (a) Imposing tariffs on imported goods to protect domestic industries
   (b) Providing financial assistance to exporters for marketing and promotion activities
   (c) Implementing quotas on the import of specific products.
   (d) Prohibiting foreign companies from investing in the domestic market

4. **How can export subsidies and incentives impact a country's exports and economy?**
   (a) They may lead to increased exports and boost economic growth
   (b) They encourage import-oriented industries and increase trade deficits

(c) They have no impact on a country's exports or economy

(d) They only benefit foreign companies, not domestic exporters

IV. Voluntary Export Restraints:

1. What are Voluntary Export Restraints (VERs) in international trade?

(a) Government-imposed restrictions on the import of specific goods

(b) Agreements between exporting and importing countries to limit export quantities voluntarily

(c) Financial benefits provided to domestic exporters to support international trade

(d) Non-financial barriers that restrict the import of certain products

2. Why do countries agree to Voluntary Export Restraints (VERs)?

(a) To encourage foreign direct investment (FDI)

(b) To promote free trade and open markets

(c) To avoid the imposition of more stringent trade restrictions, such as tariffs or quotas

(d) To increase government revenue from export taxes

3. Which of the following is an example of a Voluntary Export Restraint (VER)?

(a) Prohibiting all trade with a specific country

(b) Implementing import quotas on certain goods

(c) Restricting the export of specific products to a certain quantity

(d) Providing financial incentives to domestic exporters

4. How can Voluntary Export Restraints impact international trade?

(a) They promote unrestricted trade between countries

(b) They may lead to reduced availability of certain products in the importing country

(c) They have no impact on trade relations between countries

(d) They encourage countries to remove all trade barriers

Additional Question Bank

1.1 - Introduction

1. **Trade policy refers to the government's strategies and actions aimed at:**
   (a) Promoting domestic production and exports
   (b) Encouraging foreign direct investment
   (c) Reducing unemployment rates
   (d) Regulating the stock market

2. **The main objectives of trade policy include:**
   (a) Stabilizing foreign exchange rates
   (b) Controlling inflation and interest rates
   (c) Protecting domestic industries and promoting international trade
   (d) Enforcing copyright laws for intellectual property protection

3. **Trade policy instruments can be classified into two broad categories:**
   (a) Fiscal policy and monetary policy
   (b) Exchange rate policies and fiscal policies
   (c) Trade liberalization and trade protection measures
   (d) Government expenditure and taxation policies

4. **Which trade policy approach aims to reduce or eliminate trade barriers and restrictions to promote free and open international trade?**
   (a) Trade liberalization (b) Import quotas
   (c) Export subsidies (d) Dumping

5. **The imposition of tariffs, import quotas, and export subsidies are examples of:**
   (a) Trade liberalization measures (b) Free trade agreements
   (c) Trade protection measures (d) Monetary policies

1.2 - Tariffs

1. **Tariffs are a form of:**
   (a) Government subsidies to domestic industries (b) Trade liberalization
   (c) Trade protection (d) Foreign direct investment

2. **Tariffs are taxes imposed on:**
(a) Domestic goods and services (b) Imports and exports
(c) Foreign direct investment (d) Government expenditures

3. **The primary purpose of imposing tariffs is to:**
(a) Encourage exports and foreign investment
(b) Stimulate economic growth and job creation.
(c) Generate government revenue and protect domestic industries
(d) Facilitate free trade and reduce trade barriers

4. **A specific tariff is levied as a fixed amount per:**
(a) Unit of imported goods (b) Unit of exported goods
(c) Unit of domestic production (d) Unit of foreign Investment

5. **An ad valorem tariff is levied as a percentage of the:**
(a) Value of imported goods (b) Value of domestic production
(c) Value of foreign investment (d) Value of government revenue

1.3 - Non-Tariff Measures (NTMS)

1. **Non-tariff measures (NTMs) are trade policy instruments that do not involve:**
(a) Import and export restrictions (b) Trade liberalization
(c) Government subsidies (d) Direct taxes on goods and services

2. **Examples of non-tariff measures include:**
(a) Import tariffs and export quotas
(b), Subsidies to domestic industries
(c) Health and safety regulations, product standards, and licensing requirements
(d) Fiscal policies and monetary policies

3. **Non-tariff measures are often used to:**
(a) Promote free trade and globalization
(b) Increase foreign direct investment
(c) Facilitate cross-border trade and reduce transaction costs
(d) Protect domestic industries, ensure product quality, and address environmental concerns

4. **Voluntary export restraints (VERS) are an example of:**
(a) Export promotion policies
(b) Trade liberalization measures
(c) Non-tariff trade barriers imposed by the exporting country
(d) Measures to stabilize foreign exchange rates

5. **Sanitary and phytosanitary (SPS) measures are NTMs designed to:**
(a) Promote tourism and travel
(b) Facilitate labor migration
(c) Regulate the import and export of food, plants, and animals to ensure safety and prevent the spread of diseases
(d) Encourage foreign investment in critical sectors

1.4 - Export-Related Measures

1. **Export subsidies are a type of export-related measure that involves:**
(a) Imposing taxes on exported goods
(b) Providing financial incentives or support to domestic producers for exporting goods
(c) Restricting the quantity of exported goods
(d) Regulating the exchange rates for foreign buyers-

2. **Export quotas are a form of export-related measure that involves:**
(a) Providing tax breaks to exporters
(b) Restricting the quantity of goods that can be exported
(c) Offering subsidies to foreign buyers
(d) Controlling the prices of exported goods

3. **The purpose of export-related measures, such as export subsidies and export quotas, is to:**
(a) Encourage the import of foreign goods
(b) Discourage domestic producers from exporting goods
(c) Promote domestic consumption of goods
(d) Support and boost the competitiveness of domestic industries in foreign markets

4. Export processing zones (EPZs) are designated areas that offer special incentives and benefits to:

(a) Importers of foreign goods

(b) Domestic producers selling goods in the domestic market

(c) Foreign investors and exporters

(d) Government officials involved in trade policymaking

5. The primary goal of establishing export processing zones (EPZS) is to:

(a) Increase imports and foreign direct investment

(b) Promote trade barriers and protectionism

(c) Encourage economic industrialization growth through export-oriented

(d) Support the growth of the domestic market and reduce reliance on exports

ANSWERS (Unit 2):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	A	4.	B	5.	C
6.	B	7.	C	8.	D	9.	B	10.	A

1.2 - Tariffs

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	C	4.	B	5.	C
6.	B	7.	C	8.	A	9.	B	10.	C

1.2.1 – Forms of Import Tariffs

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	C	4.	C	5.	D

(I) – Specific Tariffs

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	A				

(II) – Ad valorem tariff

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B								

1.2.2 – Effects of Tariffs

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	B		

1.3 – Non-Tariff Measures (NTMS)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	D	4.	D	5.	B
6.	A	7.	C	8.	C				

(I) – Technical Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	B	3.	D	4.	B		

(II) – Non-technical Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	D	4.	D		

1.3.1 – Technical Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	A	4.	B		

(I) – Sanitary and Phytosanitary (SPS) Measyres:

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	D		

(II) – Technical Barriers To Trade (TBT)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	B	4.	B		

1.3.2 – Non-technical Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	D	4.	A		

(I) – Import Quotas

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	A	4.	A		

(II) – Price Control Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	A	4.	A		

(III) – Non-automatic Licensing and Prohibitions

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	A	4.	A		

(IV) – Financial Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	C	4.	C		

(V) – Measures Affecting Competition

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	C	4.	A		

(VI) – Government Procurement Policies

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	A	4.	A		

(VII) – Trade-Related Investment Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	B	4.	C		

(VIII) – Distribution Restrictions

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	B		

(IX) – Restriction on Post-sales Services

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	C	4.	B		

(X) – Administrative Procedures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	B		

(XI) – Rules of origin

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	B		

(XII) – Safeguard Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	B		

(XIII) – Embargos

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	C		

1.4 – Export-Related Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	C	4.	B		

(I) – Ban on exports

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	C	4.	B		

(II) – Export Taxes

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	C	4.	C		

(III) – Export Subsidies and Incentives

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	B	4.	A		

(IV) – Voluntary Export Restraints

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	B		

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	C	4.	A	5.	C

1.2 - Tariffs

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	C	4.	A	5.	A

1.3 – Non-Tariffs Measures (NTMS)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	D	4.	C	5.	C

1.4 – Export-Related Measures

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	D	4.	C	5.	C

Unit 3: Trade Negotiations

1.1 - Introduction

1. **What are trade negotiations?**
   (a) Talks between countries to impose tariffs on imports
   (b) Discussions between governments to limit exports
   (c) Negotiations between parties to reach agreements on trade-related issues
   (d) Bilateral agreements to promote import substitution

2. **Which organization plays a significant role in facilitating global trade negotiations?**
   (a) International Monetary Fund (IMF) (b) World Bank
   (c) United Nations (UN) (d) World Trade Organization (WTO)

3. **What is the primary objective of trade negotiations?**
   (a) To promote protectionism and restrict international trade
   (b) To eliminate all trade barriers and achieve complete free trade
   (c) To enhance cooperation among countries in trade matters
   (d) To impose export restrictions on sensitive goods

4. **Which trade negotiation round led to the establishment of the WTO in 1995?**
   (a) Doha Round (b) Tokyo Round (c) Uruguay Round (d) Seattle Round

5. **What is the role of trade negotiators in the negotiation process?**
   (a) To prioritize the interests of their home country without compromise
   (b) To find win-win solutions and address the concerns of all parties involved
   (c) To impose unilateral trade policies on other negotiating countries
   (d) To advocate for import substitution and reject foreign goods

6. **What are trade negotiations in international trade?**
   (a) Bilateral meetings between government officials and domestic exporters
   (b) Discussions between countries to resolve trade disputes
   (c) Talks aimed at reaching agreements on trade policies and market access
   (d) Interactions between customs officials and importers at borders

7. **Which organization facilitates multilateral trade negotiations among its member countries?**
   (a) International Monetary Fund (IMF) (b) World Trade Organization (WTO)
   (c) United Nations (UN) (d) World Bank

8. **What is the purpose of trade negotiations?**
   (a) To create barriers to international trade and protect domestic industries
   (b) To promote import-oriented economies and increase trade deficits
   (c) To resolve trade disputes between countries
   (d) To improve market access and reduce trade barriers

9. **Which of the following issues can be addressed in trade negotiations?**
   (a) Currency exchange rates and monetary policies
   (b) Immigration and border control measures
   (c) Intellectual property rights and patent regulations
   (d) Healthcare and environmental policies

10. **What role do trade negotiators play in the negotiation process?**
   (a) They act as mediators between domestic industries and foreign governments
   (b) They represent the interests of their countries and negotiate trade. deals
   (c) They provide financial assistance to exporters during negotiations
   (d) They ensure the enforcement of trade agreements after negotiations

1.2 - Taxonomy of Regional Trade Agreements (RTAS)

1. **What is a Regional Trade Agreement (RTA)?**
   (a) An agreement between two or more countries to impose tariffs on imports
   (b) An agreement between two or more countries to promote free trade within a specific region
   (c) An agreement between countries and international organizations to regulate global trade
   (d) An agreement between countries to restrict foreign direct investment (FDI)

2. **What is the main objective of a Regional Trade Agreement (RTA)?**
   (a) To restrict the flow of goods and services among member countries
   (b) To encourage trade and economic cooperation within the region

(c) To impose higher tariffs on imports from non-member countries
(d) To prevent foreign companies from investing in the region

3. **Which type of Regional Trade Agreement (RTA) involves the highest level of economic integration among member countries?**
(a) Free Trade Area (FTA) (c) Common Market (CM)
(b) Customs Union (CU) (d) Economic Union (EU)

4. **What is the key difference between a Free Trade Area (FTA) and a Customs Union (CU)?**
(a) In an FTA, member countries have a common external trade policy, while in a CU, they don't.
(b) In an FTA, member countries have a common currency, while in a CU, they don't.
(c) In an FTA, member countries have a common market, while in a CU, they don't.
(d) In an FTA, member countries have a common customs territory, while in a CU, they don't.

5. **Which Regional Trade Agreement (RTA) allows for the free movement of goods, services, capital, and labor among member countries?**
(a) Free Trade Area (FTA) (b) Customs Union (CU)
(c) Common Market (CM) (d) Economic Union (EU)

6. **What is a Regional Trade Agreement (RTA)?**
(a) An agreement between two or more countries to promote global free trade
(b) A pact between countries within a specific region to facilitate trade and reduce barriers
(c) A treaty that regulates foreign direct investment (FDI) among member nations
(d) A legal framework to restrict imports and protect domestic industries

7. **How are Regional Trade Agreements classified based on the number of participating countries?**
(a) Bilateral and multilateral agreements
(b) Import substitution and export-oriented agreements
(c) Free trade agreements and customs unions
(d) North-South and South-South agreements

8. What is the main characteristic of a Free Trade Agreement (FTA)?

(a) Member countries adopt a common external trade policy

(b) There is a complete removal of all trade barriers among member countries

(c) It allows for the free movement of people and labor across borders

(d) It focuses on protecting domestic industries through import tariffs

9. What is a Customs Union in the context of Regional Trade Agreements?

(a) An agreement where member countries maintain separate external trade policies

(b) An agreement that establishes a common external trade policy among member countries

(c) A pact that promotes the free movement of goods but not services and labor

(d) A trade agreement exclusively focused on import substitution

10. Which of the following an example of a Regional Trade Agreement?

(a) GATT (General Agreement on Tariffs and Trade)

(b) WTO (World Trade Organization)

(c) NAFTA (North American Free Trade Agreement)

(d) IMF (International Monetary Fund)

1.3 - The General Agreement on Tariffs and Trade (GATT)

1. What is the General Agreement on Tariffs and Trade (GATT)?

(a) An international organization that regulates global trade and investment

(b) A regional trade agreement between North American countries

(c) A multilateral treaty that aims to promote free trade by reducing tariffs and trade barriers

(d) A bilateral agreement between two countries to facilitate trade in specific goods

2. When was GATT established?

(a) 1947 (b) 1957 (c) 1967 (d) 1977

3. Which international organization evolved from GATT?

(a) United Nations (UN) (b) World Bank

(c) World Trade Organization (WTO) (d) International Monetary Fund (IMF)

4. What is the most-favored-nation (MFN) principle under GATT?

(a) A country should grant the best trade terms to its most important trading partners

(b) A country should provide preferences to its neighboring nations in trade matters

(c) A country should impose higher tariffs on goods from less developed countries

(d) A country should treat all its trading partners equally, without discrimination

5. How did GATT contribute to the reduction of trade barriers?

(a) By promoting import substitution policies

(b) By imposing high tariffs on imported goods

(c) By conducting trade negotiations and tariff rounds

(d) By implementing export subsidies for domestic industries

6. What is the General Agreement on Tariffs and Trade (GATT)?

(a) A treaty that regulates foreign direct investment (FDI) among member nations

(b) A pact between countries within a specific region to facilitate trade and reduce barriers

(c) A multilateral agreement aimed at promoting global free trade and reducing tariffs

(d) A legal framework to restrict imports and protect domestic industries

7. When was the General Agreement on Tariffs and Trade (GATT) established?

(a) 1945 (b) 1947 (c) 1950 (d) 1955

8. What was the main objective of the GATT?

(a) To regulate foreign investments and capital flows

(b) To establish common monetary policies among member nations

(c) To promote the free movement of labor across borders

(d) To reduce trade barriers and facilitate international trade

9. How did the GATT achieve its goals?

(a) By providing financial assistance to developing countries

(b) By imposing import tariffs on specific products

(c) Through rounds of negotiations to lower tariffs and address trade issues

(d) By establishing preferential trade agreements among member countries

10. What organization replaced the GATT in 1995?

(a) United Nations (UN) (b) International Monetary Fund (IMF)

(c) World Trade Organization (WTO) (d) World Bank

1.4 - The Uruguay Round and the Establishment of WTO

1. What was the Uruguay Round in the context of international trade?

(a) A series of negotiations to regulate foreign direct investment (FDI)

(b) Talks between developed and developing countries to address climate change

(c) A comprehensive set of trade negotiations to reform and liberalize global trade

(d) A summit to discuss global poverty and humanitarian aid

2. When did the Uruguay Round take place?

(a) 1970-1979 (b) 1986-1994 (c) 1995-2004 (d) 2008-2016

3. What was the outcome of the Uruguay Round negotiations?

(a) The establishment of the World Trade Organization (WTO)

(b) The formation of the International Monetary Fund (IMF)

(c) The creation of regional trade blocs in different parts of the world

(d) The imposition of import tariffs on specific products

4. What is the main function of the World Trade Organization (WTO)?

(a) To regulate foreign direct investment (FDI) among member nations

(b) To establish common monetary policies among member nations

(c) To promote international cooperation in environmental protection

(d) To facilitate global trade and ensure the adherence to trade rules

5. How does the World Trade Organization (WTO) resolve trade disputes between member countries?

(a) By imposing economic sanctions on non-compliant countries

(b) By referring disputes to an independent dispute settlement body

(c) By encouraging member countries to engage in military actions

(d) By imposing import quotas on the countries involved in the dispute

6. **What was the Uruguay Round in the context of international trade?**
   (a) A series of negotiations to establish the European Union (EU)
   (b) A round of trade talks under the General Agreement on Tariffs and Trade (GATT)
   (c) A regional trade agreement between South American countries
   (d) A multilateral agreement to regulate foreign direct investment (FDI)

7. **What was the main objective of the Uruguay Round?**
   (a) To establish a common currency among member countries
   (b) To promote regional trade agreements in South America
   (c) To reduce trade barriers and liberalize global trade
   (d) To restrict the movement of labor and capital across borders

8. **How did the Uruguay Round contribute to the establishment of the World Trade Organization (WTO)?**
   (a) By creating a new multilateral organization focused on labor standards
   (b) By expanding the scope of GATT and transforming it into the WTO
   (c) By forming a regional trade bloc in the Asia-Pacific region
   (d) By promoting the free movement of capital and financial services

9. **What is the main function of the World Trade Organization (WTO)?**
   (a) To regulate foreign direct investment (FDI) among member nations
   (b) To establish common monetary policies among member countries
   (c) To promote regional economic integration in Europe
   (d) To facilitate trade negotiations and dispute resolution among 'member countries

10. **Which of the following agreements was a significant outcome of the Uruguay Round?**
    (a) Kyoto Protocol on climate change
    (b) North American Free Trade Agreement (NAFTA)
    (c) General Agreement on Trade in Services (GATS)
    (d) Paris Agreement on climate change

3.5 - The World Trade Organization (WTO)

1. **What is the World Trade Organization (WTO)?**
   (a) A global organization that regulates foreign direct investment (FDI)
   (b) An intergovernmental organization that promotes regional trade agreements
   (c) An international body that oversees and regulates global trade
   (d) A group of countries that collaborate to establish a common currency

2. **When was the World Trade Organization (WTO) established?**
   (a) 1947 (b) 1986 (c) 1995 (d) 2001

3. **What is the primary objective of the WTO?**
   (a) To promote regional economic integration among member countries
   (b) To regulate foreign investments and capital flows
   (c) To reduce trade barriers and facilitate international trade
   (d) To enforce labor and environmental standards in member countries

4. **How does the WTO settle trade disputes between member countries?**
   (a) By imposing sanctions on non-compliant countries
   (b) By conducting independent investigations and trials.
   (c) Through a dispute settlement mechanism with a panel of experts
   (d) By referring disputes to the United Nations (UN) for resolution

5. **Which of the following agreements is NOT under the purview of the WTO?**
   (a) General Agreement on Tariffs and Trade (GATT)
   (b) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
   (c) Agreement on Agriculture (AOA)
   (d) North American Free Trade Agreement (NAFTA)

6. **How many member countries are currently part of the World Trade Organization (WTO)?**
   (a) 77 (b) 164 (c) 216 (d) 305

7. **What is the primary function of the World Trade Organization (WTO)?**
   (a) To regulate foreign direct investment (FDI) among member nations
   (b) To establish common monetary policies among member countries
   (c) To promote regional economic integration in Europe
   (d) To facilitate trade negotiations and resolve trade disputes among member countries

8. **Which of the following agreements is NOT administered by the World Trade Organization (WTO)?**
   (a) General Agreement on Trade in Services (GATS)
   (b) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)
   (c) North American Free Trade Agreement (NAFTA)
   (d) Agreement on Agriculture (AOA)

1.5.1 - The Structure of the WTO

1. **What is the highest decision-making body of the World Trade Organization (WTO)?**
   (a) General Council (b) Ministerial Conference
   (c) Appellate Body (d) Dispute Settlement Body

2. **Which of the following is responsible for the daily functioning of the WTO and implementation of decisions?**
   (a) General Council (b) Ministerial Conference
   (c) Director-General (d) Dispute Settlement Body

3. **Which WTO body is responsible for the settlement of disputes between member countries?**
   (a) General Council (b) Dispute Settlement Body
   (c) Appellate Body (d) Ministerial Conference

4. **Which WTO body reviews appeals of panel decisions in trade disputes?**
   (a) General Council (b) Dispute Settlement Body
   (c) Appellate Body (d) Ministerial Conference

5. **What is the primary function of the General Council of the WTO?**
   (a) To administer trade agreements and monitor trade policies of member countries
   (b) To oversee the daily functioning of the WTO and resolve budgetary matters
   (c) To approve new members' accession to the WTO
   (d) To set the strategic direction and goals for the WTO's work

1.5.2 - The Guiding Principles of World Trade Organization (WTO)

1. **What are the guiding principles of the World Trade Organization (WTO)?**
   (a) Protectionism and import substitution
   (b) Free trade, non-discrimination, and transparency
   (c) Bilateral trade agreements and export-oriented policies
   (d) Monetary policy coordination among member countries

2. **Which principle of the WTO promotes the removal of trade barriers, such as tariffs and quotas?**
   (a) Free trade (b) Non-discrimination
   (c) Transparency (d) Special and differential treatment

3. **What does the principle of non-discrimination in the WTO entail?**
   (a) Giving preferential treatment to least-developed countries
   (b) Treating foreign and domestic product's equally in trade matters
   (c) Restricting imports to protect domestic industries
   (d) Imposing export tariffs on certain goods

4. **How does the WTO promote transparency in trade policies?**
   (a) By imposing trade sanctions on non-compliant member countries
   (b) By providing financial assistance to developing nations
   (c) By conducting regular trade policy reviews and notifications
   (d) By implementing quotas on specific products

5. **What is the principle of special and differential treatment in the WTO?**
   (a) Imposing differential tariffs on imports from different countries
   (b) Granting preferential trade agreements to certain member countries
   (c) Providing financial aid to least-developed countries for trade-related capacity building
   (d) Allowing countries to set their own monetary policies independently

1.6 - The Doha Round

1. **What is the Doha Round in the context of international trade?**
   (a) A series of negotiations to establish a common currency among member countries
   (b) A round of trade talks aimed at promoting regional economic integration in Europe
   (c) A multilateral trade negotiation under the World Trade Organization (WTO)
   (d) A regional trade agreement between South American countries

2. **What was the main objective of the Doha Round?**
   (a) To establish a common monetary policy among member countries
   (b) To promote import substitution policies in developing nations
   (c) To reduce trade barriers and address the concerns of developing countries
   (d) To restrict foreign direct investment (FDI) in developing economies

3. **Why was the Doha Round often referred to as the "Development Round"?**
   (a) Because it focused on increasing foreign aid to developing countries
   (b) Because it aimed to promote export-oriented policies in developing economies
   (c) Because it emphasized addressing the trade-related needs of developing countries
   (d) Because it sought to impose higher tariffs on imports from developing nations

4. **What were some of the key issues of contention in the Doha Round negotiations?**
   (a) Climate change policies and environmental regulations
   (b) Immigration and border control measures
   (c) Intellectual property rights and access to essential medicines
   (d) Currency exchange rates and monetary policies

5. **Why did the Doha Round face challenges and delays in reaching a comprehensive agreement?**
   (a) Due to the lack of interest from developed countries in trade liberalization
   (b) Because developing countries were not willing to participate in the negotiations
   (c) Due to disagreements among member countries on various trade-related issues
   (d) Because the World Trade Organization (WTO) lacked the authority to enforce trade agreements

6. **What is the Doha Round in the context of international trade?**
   (a) A series of negotiations to establish the European Union (EU)
   (b) A multilateral agreement to regulate foreign direct investment (FDI)
   (c) A round of trade talks under the World Trade Organization (WTO)
   (d) A pact between countries within a specific region to facilitate trade and reduce barriers

7. **What was the main objective of the Doha Round?**
   (a) To establish a common currency among member countries
   (b) To promote regional trade agreements in Asia
   (c) To reduce trade barriers and promote development in developing countries
   (d) To restrict the movement of labor and capital across borders

8. **The Doha Round negotiations focused on various sectors, including agriculture, services, and:**
   (a) Pharmaceuticals (b) Information technology
   (c) Tourism (d) Industrial goods

9. **Why is the Doha Round often referred to as the "Development Round"?**
   (a) Because it aimed to promote trade in developing countries
   (b) Because it focused on environmental sustainability
   (c) Because it aimed to eliminate subsidies in developed countries
   (d) Because it focused on reducing income disparities between rich and poor countries

10. **What were some of the challenges that led to the suspension of the Doha Round in 2015?**
   (a) Lack of interest from developing countries in participating
   (b) Disagreements over intellectual property rights and patent regulations
   (c) Resistance from developed countries to reduce agricultural subsidies
   (d) A focus on bilateral trade agreements instead of multilateral negotiations

1.7 - G 20 Economies: Facilitating Trade

1. **What is the G20?**
   (a) An organization of 20 countries focused on facilitating international trade
   (b) A group of 20 economies that promote regional economic integration
   (c) A forum of major advanced and emerging economies addressing global economic issues
   (d) A trade bloc formed by 20 countries to impose trade restrictions on non-members

2. **How can the G20 economies facilitate international trade?**
   (a) By imposing tariffs and quotas on imports from non-member countries
   (b) By implementing trade agreements among member countries
   (c) By fostering economic growth and stability to promote global trade
   (d) By providing financial aid to developing countries for trade-related infrastructure

3. **Which of the following is NOT a direct role of the G20 in trade facilitation?**
   (a) Negotiating bilateral trade agreements between member countries
   (b) Discussing trade-related issues among member countries
   (c) Addressing trade imbalances and protectionist measures
   (d) Encouraging the reduction of trade barriers

4. **How do G20 discussions on global economic issues impact international trade?**
   (a) They can lead to the formation of regional trade blocs
   (b) They may result in the harmonization of trade policies among member countries
   (c) They have no direct impact on international trade
   (d) They focus solely on monetary policies and do not address trade matters

5. **What is the G20's stance on protectionism?**
   (a) The G20 encourages its member countries to embrace protectionist measures to safeguard domestic industries
   (b) The G20 supports open markets and rejects protectionism in global trade
   (c) The G20 imposes tariffs on goods from non-member countries to protect its economies
   (d) The G20 allows its member countries to implement import quotas on specific products

6. What is the primary focus of the G20 group of economies?

(a) Facilitating trade negotiations and agreements

(b) Addressing global economic and financial issues

(c) Implementing regional trade blocs

(d) Regulating foreign direct investment (FDI)

Additional Question Bank

1.1 - Introduction

1. Trade negotiations are formal discussions and dialogues between countries or trading blocs aimed at:

(a) Promoting protectionism and trade barriers

(b) Increasing foreign direct investment

(c) Facilitating trade liberalization and reducing trade barriers

(d) Regulating exchange rates and monetary policies

2. The World Trade Organization (WTO) plays a significant role in international trade negotiations by:

(a) Imposing trade sanctions on non-compliant countries

(b) Establishing a unified global currency

(c) Setting international standards for labor practices

(d) Providing a platform for multilateral trade negotiations and dispute settlement

3. Bilateral trade negotiations involve discussions between:

(a) Two countries or trading partners

(b) Multiple countries and regional blocs

(c) The World Bank and the International Monetary Fund (IMF)

(d) The United Nations and the World Trade Organization (WTO)

4. The Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP) are examples of:

(a) Multilateral trade agreements

(b) Bilateral trade agreements

(c) Trade blocs or regional trade agreements

(d) Trade negotiations between developed and developing countries

5. Trade negotiations aim to address various trade-related issues, including:

(a) Environmental protection and climate change policies

(b) Currency exchange rate manipulation

(c) Intellectual property rights and market access

(d) Military alliances and defense spending

1.2 - Taxonomy of REGIONAL Trade Agreements (RTAS)

1. Regional Trade Agreements (RTAs) are agreements between:

(a) Two or more countries within a region to promote trade and economic integration

(b) A country and the World Trade Organization (WTO)

(c) Developing countries and developed countries

(d) Countries and international organizations such as the World Bank

2. Preferential Trade Agreements (PTAs) are a type of RTA that:

(a) Reduce or eliminate trade barriers between member countries

(b) Impose higher tariffs on imports from non-member countries

(c) Apply trade restrictions only to certain products and industries

(d) Promote exports but do not impact imports

3. Free Trade Areas (FTAs) are RTAS that aim to:

(a) Promote fair trade practices between member countries

(b) Establish a common currency for member countries

(c) Encourage trade and remove most or all trade barriers within the region

(d) Increase tariffs and protectionism to protect domestic industries

4. Customs Unions are RTAS that involve:

(a) The establishment of a common external tariff on imports from non-member countries

(b) Joint management of natural resources by member countries

(c) The formation of a military alliance between member countries

(d) Coordination of monetary policies and exchange rates among member countries

5. **Common Markets are RTAs that go beyond customs unions and also allow for:**
(a) Free movement of goods and services, but not labor and capital, within the region.
(b) Free movement of labor and capital, but not goods and services, within the region
(c) Free movement of goods, services, labor, and capital within the region
(d) The formation of a common defense and security policy among member countries

1.3 - The General Agreement on Tariffs and Trade (GATT)

1. **The General Agreement on Tariffs and Trade (GATT) was established in:**
(a) 1944 (b) 1947 (c) 1951 (d) 1955

2. **The main objective of the GATT was to:**
(a) Promote regional trade agreements among developing countries
(b) Facilitate trade negotiations between developed and developing countries
(c) Reduce tariffs and trade barriers among member countries.
(d) Establish a unified global currency

3. **The GATT operated as a multilateral agreement to:**
(a) Establish a common currency for all member countries
(b) Regulate the stock market and financial institutions
(c) Set international labor standards
(d) Promote the liberalization of international trade

4. **The GATT was succeeded by the World Trade Organization (WTO) in:**
(a) 1995 (b) 2000 (c) 1980 (d) 1975

5. **The principle of most-favored-nation (MFN) treatment under the GATT meant that:**
(a) All member countries were treated equally without discrimination
(b) Developing countries received preferential treatment in trade negotiations
(c) Member countries were required to impose tariffs on non-member countries
(d) Trade barriers were imposed on specific products and industries

1.4 - The Uruguay Round and the Establishment of WTO

1. **The Uruguay Round was a series of negotiations that took place under the auspices of:**
   (a) The United Nations (UN)
   (b) The World Bank
   (c) The International Monetary Fund (IMF)
   (d) The General Agreement on Tariffs and Trade (GATT)

2. **The Uruguay Round negotiations were initiated in:**
   (a) 1986 (b) 1988 (c) 1990 (d) 1994

3. **The main objective of the Uruguay Round was to:**
   (a) Reduce agricultural subsidies and support
   (b) Restrict the trade of developing countries
   (c) Address emerging environmental issues in international trade
   (d) Create a more comprehensive and effective international trade agreement

4. **The Uruguay Round resulted in the establishment of the World Trade Organization (WTO) in:**
   (a) 1986 (b) 1990 (c) 1994 (d) 1995

5. **The WTO is an international organization that oversees and enforces global trade rules and agreements among its member countries. Its headquarters are located in:**
   (a) Geneva, Switzerland (b) New York, USA
   (c) Brussels, Belgium (d) Tokyo, Japan

1.5 - The World Trade Organization (WTO)

1. **The World Trade Organization (WTO) is an international organization that deals with the global rules of trade among its member countries. It officially commenced operations on:**
   (a) January 1, 1995 (b) January 1, 2000
   (c) January 1, 1990 (d) January 1, 1985

2. **The WTO is headquartered in:**
   (a) Washington, D.C., USA (b) Brussels, Belgium
   (c) Geneva, Switzerland (d) New York, USA

3. **The WTO operates on the principle of ………………………., which means that any trade concession granted to one-member country should be extended to all member countries.**
   (a) Most-Favored Nation (MFN) (b) Free Trade Area (FTA)
   (c) Preferential Trade Agreement (PTA) (d) Customs Union (CU)

4. **The highest decision-making body of the WTO is the Ministerial Conference, which meets at least once every:**
   (a) Two years (b) Four years (c) Six years (d) Eight years

5. **The WTO has a dispute settlement mechanism that allows member countries to resolve trade disputes in a rules-based manner. If a dispute cannot be resolved through consultations, it may be brought before a panel of experts. The final appellate body for dispute settlement in the WTO is known as the:**
   (a) Dispute Resolution Panel (DRP) (b) Appellate Body (AB)
   (c) Trade Dispute Arbitration Board (TDAB) (d) Dispute Resolution Court (DRC)

1.6 - The Doha Round

1. **The Doha Round is a series of trade negotiations that were launched under the auspices of the World Trade Organization (WTO) in:**
   (a) 1995 (b) 2001 (c) 2005 (d) 2010

2. **The main objective of the Doha Round was to:**
   (a) Establish a global currency for all member countries
   (b) Focus on environmental and climate change issues related to international trade
   (c) Address trade barriers and promote development in developing countries
   (d) Create a regional trade agreement between developed countries

3. **One of the significant issues of the Doha Round negotiations was related to:**
   (a) Intellectual property rights and copyright protection
   (b) Currency exchange rate manipulation
   (c) Agricultural subsidies and market access for agricultural products
   (d) Environmental standards in manufacturing industries

4. **The Doha Development Agenda (DDA) is a set of trade negotiation goals and objectives specifically aimed at:**
   (a) Promoting trade liberalization among developed countries
   (b) Reducing trade barriers for small and medium-sized enterprises (SMEs)
   (c) Addressing the trade concerns of developing countries and Improving their access to global markets
   (d) Expanding trade in the services sector, such as finance and telecommunications

1.7 - G 20 Economies: Facilitating Trade

1. **The G20 is a group of major advanced and emerging, economies that represent about …………………………… of the world's GDP and ………………………. of the global trade.**
   (a) 20%; 50% (b) 40%; 80% (c) 60%; 90% (d) 80%; 70%

2. **The G20 economies play a significant role in facilitating trade by:**
   (a) Establishing a common currency for all member countries
   (b) Imposing higher tariffs on imports from non-member countries
   (c) Promoting protectionist trade policies
   (d) Cooperating on international trade and economic issues

3. **The G20 economies have held summits since:**
   (a) 1995 (b) 1999 (c) 2001 (d) 2005

4. **The G20 economies focus on addressing global economic challenges, promoting financial stability, and enhancing cooperation on international trade to foster:**
   (a) Regional trade agreements (b) Protectionist trade measures
   (c) Sustainable and inclusive economic growth (d) Exchange rate manipulation

5. **One of the key objectives of the G20 economies is to foster open and predictable trade policies that promote:**
   (a) Trade restrictions and barriers
   (b) Free trade agreements among member countries
   (c) Bilateral trade agreements with non-member countries
   (d) Economic growth, job creation, and global prosperity through international trade

ANSWERS (Unit 3):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	C	4.	C	5.	B
6.	C	7.	B	8.	D	9.	C	10.	B

1.2 – Taxonomy of Regional Trade Agreements (RTAS)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	D	4.	D	5.	C
6.	B	7.	A	8.	B	9.	B	10.	C

1.3 – The General Agreement on Tariffs and Trade (GATT)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	C	4.	D	5.	C
6.	C	7.	B	8.	D	9.	C	10.	C

1.4 – The Uruguay Round and the Establishment of WTO

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	A	4.	D	5.	B
6.	B	7.	C	8.	B	9.	D	10.	C

1.5 – The World Trade Organization (WTO)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	C	5.	D
6.	B	7.	D	8.	C				

1.5.1 – The Structure of the WTO

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	C	5.	A

1.5.2 – The Guiding Principles of World Trade Organization (WTO)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	B	4.	C	5.	C

1.6 – The Doha Round

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	C	5.	C
6.	C	7.	C	8.	D	9.	A	10.	C

1.7 – G 20 Economies: Facilitating Trade

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	A	4.	B	5.	B
6.	B								

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	A	4.	C	5.	C

1.2 – Taxonomy of Regional Trade Agreements (RTAS)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	C	4.	A	5.	C

1.3 – The General Agreement on Tariffs and Trade (GATT)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	D	4.	A	5.	A

1.4 – The Uruguay Round and the Establishment of WTO

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	A	3.	D	4.	D	5.	A

1.5 – The World Trade Organization (WTO)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	A	4.	A	5.	B

1.6 – The Doha Round

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	C		

1.7 – G 20 Economies: Facilitating Trade

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	B	4.	C	5.	D

Unit 4: Exchange Rate and Its Economic Effects

1.1 - Introduction

1. **What is an exchange rate?**
(a) The rate at which a country exports goods and services
(b) The rate at which a country imports goods and services
(c) The rate at which one currency can be exchanged for another currency
(d) The rate at which a country's central bank sets interest rates

2. **How is the exchange rate determined in a floating exchange rate system?**
(a) By the country's central bank through interventions in the foreign exchange market
(b) By the demand and supply of currencies in the foreign exchange market
(c) By fixed government policies that peg the exchange rate to a specific value
(d) By international organizations like the World Bank setting the exchange rate

3. **How does a depreciation of a country's currency affect its exports?**
(a) It increases the cost of exports, making them less competitive in foreign markets
(b) It decreases the cost of exports, making them more competitive in
(c) It has no impact on the cost of exports
(d) It leads to a complete halt in exports

4. **What is the term used to describe a situation where a country deliberately lowers the value of its currency to gain a competitive advantage in international trade?**
(a) Devaluation (b) Revaluation (c) Appreciation (d) Stabilization

5. **How does an appreciation of a country's currency impact its imports?**
(a) It increases the cost of imports, making them more attractive to domestic consumers
(b) It decreases the cost of imports, making them less attractive to domestic consumers
(c) It has no impact on the cost of imports
(d) It leads to a complete halt in imports

6. How is the exchange rate determined in a floating exchange rate system?

(a) It is fixed by the World Bank based on a country's economic performance

(b) It is determined by supply and demand in the foreign exchange Market

(c) It is set unilaterally by each country's central bank

(d) It is pegged to the price of gold or another commodity

7. What is the impact of a depreciation of a country's currency on its exports?

(a) Exports decrease because foreign goods become cheaper for domestic consumers

(b) Exports increase because domestic goods become cheaper for foreign consumers

(c) Exports remain unchanged as the depreciation has no effect on trade-

(d) Exports increase because foreign goods become more expensive for domestic consumers

8. How does an appreciation of a country's currency affect its imports?

(a) Imports decrease because domestic goods become cheaper for foreign consumers

(b) Imports increase because foreign goods become cheaper for domestic consumers

(c) Imports remain unchanged as the appreciation has no effect on trade

(d) Imports increase because domestic goods become more expensive for foreign consumers

9. What is a trade surplus?

(a) When a country's imports exceed its exports

(b) When a country's exports exceed its imports

(c) When a country has a fixed exchange rate regime

(d) When a country's inflation rate is higher than that of its trading partners

1.2 - The Exchange Rate

1. In a floating exchange rate system, how is the exchange rate determined?

(a) It is fixed by the government to stabilize international trade

(b) It is determined by supply and demand in the foreign exchange market

(c) It is pegged to a specific commodity, such as gold

(d) It is set unilaterally by each country's central bank

2. What does an appreciation of a country's currency mean?

(a) The currency has increased in value relative to other currencies

(b) The currency has decreased in value relative to other currencies

(c) The country's central bank has intervened to stabilize the exchange rate

(d) The country is experiencing high inflation rates

3. How does an appreciation of a country's currency affect its exports?

(a) Exports increase because foreign goods become cheaper for domestic consumers

(b) Exports decrease because domestic goods become more expensive for foreign consumers

(c) Exports remain unchanged as the appreciation has no effect on trade

(d) Exports increase because domestic goods become more expensive for domestic consumers

4. What is a trade deficit?

(a) When a country's exports exceed its imports

(b) When a country's imports exceed its exports

(c) When a country has a fixed exchange rate regime

(d) When a country's inflation rate is higher than that of its trading partners

1.3 - The Exchange Rate Regimes

1. What is an exchange rate regime?

(a) The rate at which a country's central bank lends money to commercial banks

(b) The rate at which one country's currency can be exchanged for another country's currency

(c) The framework adopted by a country to determine the value of its currency in relation to other currencies

(d) The rate at which a country's central bank buys and sells government securities

2. In a fixed exchange rate regime, the exchange rate is:

(a) Determined by supply and demand in the foreign exchange market

(b) Set by the country's central bank and remains constant

(c) Free to fluctuate based on market forces

(d) Linked to the price of gold or another commodity

3. **Which exchange rate regime allows the exchange rate to be determined by market forces without significant intervention from the central bank?**
   (a) Fixed exchange rate regime
   (b) Flexible exchange rate regime
   (c) Crawling peg exchange rate regime
   (d) Currency board arrangement

4. **What is a crawling peg exchange rate regime?**
   (a) An exchange rate regime where the currency is pegged to the price of gold
   (b) An exchange rate regime where the central bank intervenes heavily to maintain a fixed rate
   (c) An exchange rate regime where the exchange rate is adjusted gradually over time based on certain indicators
   (d) An exchange rate regime where the currency is freely floated and determined by market forces

5. **In a currency board arrangement, the central bank:**
   (a) Intervenes heavily in the foreign exchange market to stabilize the exchange rate
   (b) Has the authority to issue its currency independently of any foreign reserve backing
   (c) Holds reserves in a specific foreign currency to back the domestic currency at a fixed rate
   (d) Allows the currency to float. freely based on market demand and supply

6. **Which of the following is an example of a fixed exchange rate regime?**
   (a) Floating exchange rate system
   (b) Managed float exchange rate system
   (c) Currency board arrangement
   (d) Target exchange rate system

7. **In a floating exchange rate regime, how is the exchange rate determined?**
   (a) It is set unilaterally by each country's central bank
   (b) It is determined by supply and demand in the foreign exchange market
   (c) It is pegged to a specific commodity, such as gold
   (d) It is fixed by the International Monetary Fund (IMF)

8. Which exchange rate regime allows the value of a country's currency to fluctuate within a specified band?

(a) Fixed exchange rate system
(b) Managed float exchange rate system
(c) Crawling peg exchange rate system
(d) Currency board arrangement

9. What is the primary advantage of a flexible exchange rate regime?

(a) It promotes exchange rate stability and reduces currency volatility
(b) It allows the government to control interest rates more effectively
(c) It eliminates the need for foreign exchange reserves
(d) It allows the country to pursue an independent monetary policy Managed Float Systems

<u>**Managed Float Systems:**</u>

10. What is a managed float exchange rate system?

(a) A system where the exchange rate is determined solely by market forces
(b) A system where the exchange rate is fixed to a specific commodity, such as gold
(c) A system where the central bank intervenes in the foreign exchange market to influence the exchange rate
(d) A system where the exchange rate is pegged to a basket of currencies

11. What is the primary reason for central bank intervention in a managed float system?

(a) To fix the exchange rate to a specific value.
(b) To maintain a completely flexible and market-determined exchange rate
(c) To accumulate foreign exchange reserves for investment purposes
(d) To stabilize the exchange rate and avoid abrupt fluctuations

12. How does a central bank influence the exchange rate in a managed float system?

(a) By implementing capital controls to restrict currency flows
(b) By buying or selling foreign currencies in the foreign exchange market
(c) By fixing interest rates at a specific level
(d) By imposing tariffs and quotas on imported goods

13. **Which of the following best describes the flexibility of exchange rates in a managed float system?**
   (a) The exchange rate is completely fixed and unchanged over time
   (b) The exchange rate is determined solely by market forces with no central bank intervention
   (c) The exchange rate is adjusted periodically based on market conditions and central bank interventions
   (d) The exchange rate is pegged to a specific value against another currency-

14. **What is an advantage of a managed float system compared to a fixed exchange rate system?**
   (a) It provides more exchange rate stability
   (b) It eliminates the need for foreign exchange reserves
   (c) It allows the central bank to fully control the exchange rate
   (d) It promotes currency speculations in the foreign exchange market Fixed Exchange Rates

<u>Fixed Exchange Rates:</u>

15. **What is a fixed exchange rate system?**
   (a) A system where the exchange rate is determined solely by market forces
   (b) A system where the exchange rate is fixed and maintained at à specific value by the central bank
   (c) A system where the exchange rate is determined by a basket of currencies
   (d) A system where the exchange rate is allowed to fluctuate within a specified band

16. **What is the primary advantage of a fixed exchange rate system?**
   (a) Exchange rate stability, reducing uncertainty for international trade and investments
   (b) Flexibility in adjusting the exchange rate based on market conditions
   (c) Full control of the exchange rate by market forces
   (d) Ability to accumulate foreign exchange reserves easily

17. **How does a central bank maintain a fixed exchange rate?**
   (a) By allowing the exchange rate to fluctuate based on market conditions
   (b) By buying or selling foreign currencies, in the foreign exchange market to balance supply and demand

(c) By imposing capital controls to restrict currency flows
(d) By pegging the exchange rate to a basket of goods and services

18. Which of the following is a disadvantage of a fixed exchange rate system?
(a) Exchange rate stability, reducing uncertainty for businesses and investors
(b) Limited ability to adjust to changing economic conditions
(c) Elimination of currency speculation in the foreign exchange market
(d) Enhanced ability to pursue independent monetary policies

19. What happens if there is an imbalance in the supply and demand of a currency in a fixed exchange rate system?
(a) The central bank adjusts the fixed exchange rate to balance the market
(b) The central bank allows the exchange rate to fluctuate freely
(c) The central bank intervenes in the foreign exchange market to buy or sell currencies
(d) The exchange rate becomes flexible and market-determined

1.4 - Nominal Versus REAL Exchange Rates

1. What is a nominal exchange rate?
(a) The rate at which one country's currency can be exchanged for another country's currency
(b) The rate at which the central bank buys and sells government securities
(c) The rate at which a country's central bank lends money to commercial banks
(d) The rate at which the inflation rate is changing over time

2. How is the nominal exchange rate expressed?
(a) In terms of the price level of goods and services in each country
(b) In terms of the interest rate differential between two countries
(c) In terms of the purchasing power of each country's currency
(d) In terms of the number of units of foreign currency per unit of domestic currency

3. What is a real exchange rate?
(a) The rate at which the central bank intervenes in the foreign exchange market
(b) The rate at which a country's central bank sets interest rates

(c) The rate at which the inflation rate is changing over time

(d) The rate at which the relative price level of goods and services between two countries is changing over time

4. **What does it mean when the real exchange rate is greater than one?**

(a) The domestic currency is overvalued relative to foreign currencies

(b) The domestic currency is undervalued relative to foreign currencies

(c) The nominal exchange rate is increasing rapidly

(d) The country is experiencing high inflation rates

5. **How is the real exchange rate calculated?**

(a) By dividing the nominal exchange rate by the inflation rate in the domestic country

(b) By dividing the inflation rate in the domestic country by the inflation rate in the foreign country

(c) By multiplying the nominal exchange rate by the inflation rate in the domestic country

(d) By adding the inflation rates in the domestic and foreign countries

6. **How is the real exchange rate different from the nominal exchange rate?**

(a) The real exchange rate takes inflation into account, while the nominal exchange rate does not.

(b) The real exchange rate is determined by market forces, while the nominal exchange rate is set by the central bank.

(c) The real exchange rate applies to goods and services, while the nominal exchange rate applies to financial transactions.

(d) The real exchange rate only considers trade in goods, while the nominal exchange rate includes trade in services.

7. **How is the real exchange rate calculated?**

(a) Nominal exchange rate multiplied by the inflation rate of the home country

(b) Nominal exchange rate multiplied by the inflation rate of the foreign country

(c) Nominal exchange rate divided by the inflation rate of the home country

(d) Nominal exchange rate divided by the inflation rate of the foreign Country

8. **What does a real exchange rate greater than 1 indicate?**
   (a) The home country's goods and services are relatively more expensive than foreign goods and services.
   (b) The home country's goods and services are relatively cheaper than foreign goods and services.
   (c) The nominal exchange rate has appreciated against the foreign currency.
   (d) The nominal exchange rate has depreciated against the foreign currency.

9. **What is the significance of the real exchange rate in international trade?**
   (a) It affects the nominal exchange rate set by the central bank.
   (b) It determines the balance of trade between two countries.
   (c) It impacts the inflation rate of both countries involved in trade.
   (d) It reflects the relative price levels of goods and services between two countries.

10. **What does the nominal exchange rate represent?**
   (a) The rate at which one currency can be exchanged for another currency in the foreign exchange market
   (b) The rate at which a country's central bank lends money to commercial banks
   (c) The rate at which a country's central bank buys and sells government securities
   (d) The rate at which the general price level in an economy changes over time

11. **What does the real exchange rate take into account that the nominal exchange rate does not?**
   (a) Inflation rates of both countries
   (b) Interest rates of both countries
   (c) Gross domestic product (GDP) of both countries
   (d) Foreign exchange reserves of both countries

12. **How is the real exchange rate calculated?**
   (a) Real exchange rate = Nominal exchange rate / Inflation rate of the domestic country
   (b) Real exchange rate Inflation rate of the domestic country / Nominal exchange rate
   (c) Real exchange rate = Nominal exchange rate + Inflation rate of the domestic country
   (d) Real exchange rate = Nominal exchange rate - Inflation rate of the domestic country

13. How does an increase in the domestic country's inflation rate affect the real exchange rate?

(a) The real exchange rate increases

(b) The real exchange rate decreases

(c) The real exchange rate remains unchanged

(d) The real exchange rate becomes flexible and market-determined

14. Which exchange rate is more relevant for comparing the relative purchasing power of different countries?

(a) Nominal exchange rate (b) Real exchange rate

(c) Effective exchange rate (d) Market exchange rate

1.5 - The Foreign Exchange Market

1. What is the foreign exchange market?

(a) A market where foreign goods and services are traded

(b) A market where foreign currencies are bought and sold

(c) A market where foreign direct investment (FDI) takes place

(d) A market where commodities are exchanged between countries

2. Which of the following participants plays the most significant role in the foreign exchange market?

(a) Governments and central banks (b) Multinational corporations

(c) Individual retail traders (d) Stock exchanges

3. What is the primary purpose of the foreign exchange market?

(a) To facilitate international trade and investment

(b) To determine interest rates in the domestic economy

(c) To control inflation rates in the domestic economy

(d) To regulate capital flows between countries

4. Which of the following is NOT a major financial center for the foreign exchange market?

(a) New York (b) London (c) Tokyo (d) Sydney

5. **How is the foreign exchange rate determined in the foreign exchange market?**
(a) It is fixed by the International Monetary Fund (IMF)
(b) It is determined by supply and demand for currencies in the market
(c) It is set by a group of leading central banks
(d) It is determined based on the gold standard

6. **Who are the primary participants in the foreign exchange market?**
(a) Governments and central banks
(b) Domestic and foreign banks
(c) Foreign investors only
(d) Exporters and importers

7. **Which of the following is NOT a function of the foreign exchange market?**
(a) Facilitating currency conversion for international trade and travel
(b) Providing a platform for governments to borrow foreign currencies
(c) Setting interest rates for domestic currencies
(d) Speculating on currency price movements

8. **What is a spot exchange rate in the foreign exchange market?**
(a) The rate at which foreign currencies are bought or sold for future delivery
(b) The rate at which foreign currencies are bought or sold for immediate delivery
(c) The rate at which foreign currencies are bought or sold in the black market
(d) The rate at which foreign currencies are bought or sold by governments only

9. **What is a forward exchange fate in the foreign exchange market?**
(a) The rate at which foreign currencies are bought or sold for immediate delivery
(b) The rate at which foreign currencies are bought or sold in the black market
(c) The rate at which foreign currencies are bought or sold for future delivery
(d) The rate at which foreign currencies are bought or sold by governments only

1.6 - Determination of Nominal Exchange Rate

1. **What is the nominal exchange rate?**
(a) The rate at which goods and services are traded between two countries
(b) The rate at which one currency can be exchanged for another currency in the foreign exchange market
(c) The rate at which a country's central bank sets interest rates
(d) The rate at which a country's central bank lends money to commercial banks

2. Which of the following factors can influence the nominal exchange rate in the short term?

(a) Relative inflation rates between two countries

(b) Relative interest rates between two countries

(c) Trade balances between two countries

(d) All of the above

3. According to the purchasing power parity (PPP) theory, what will happen to the nominal exchange rate if the inflation rate is higher in one country compared to another?

(a) The nominal exchange rate will appreciate in the country with higher inflation

(b) The nominal exchange rate will depreciate in the country with higher inflation

(c) The nominal exchange rate will remain unchanged

(d) The nominal exchange rate will be determined by relative interest rates instead

4. What role do central banks play in influencing the nominal exchange rate?

(a) Central banks do not have any influence over the nominal exchange rate

(b) Central banks can directly set the nominal exchange rate

(c) Central banks can intervene in the foreign exchange market to influence the nominal exchange rate

(d) Central banks can only influence the real exchange rate, not the nominal exchange rate

5. What is the primary factor that determines the long-term trend of the nominal exchange rate?

(a) Relative interest rates between two countries

(b) Relative inflation rates between two countries

(c) Trade balances between two countries

(d) Market speculation and investor sentiment

6. Which of the following factors affects the nominal exchange rate in a floating exchange rate system?

(a) Inflation rates of both countries

(b) Interest rates of both countries

(c) Gross domestic product (GDP) of both countries

(d) Exchange rate regime chosen by the countries

7. **According to the purchasing power parity (PPP) theory, what will happen to the nominal exchange rate if the inflation rate is higher in one country than in another?**
(a) The nominal exchange rate will remain unchanged
(b) The nominal exchange rate will appreciate for the high inflation country
(c) The nominal exchange rate will appreciate for the low inflation country
(d) The nominal exchange rate will depreciate for the high inflation country

8. **How does a trade deficit or surplus impact the nominal exchange rate?**
(a) A trade deficit leads to a depreciation of the domestic currency
(b) A trade surplus leads to an appreciation of the domestic currency
(c) A trade deficit leads to an appreciation of the domestic currency
(d) A trade surplus leads to a depreciation of the domestic currency

9. **What is the role of market participants in determining the nominal exchange rate in a floating exchange rate system?**
(a) Market participants have no influence on the nominal exchange rate
(b) Market participants set the nominal exchange rate unilaterally
(c) Market participants engage in buying and selling currencies, influencing demand and supply
(d) Market participants determine the nominal exchange rate based on interest rate differentials

1.7 - Changes in Exchange Rates

1. **What causes changes in exchange rates in a floating exchange rate system?**
(a) Changes in interest rates only
(b) Changes in inflation rates only
(c) Changes in demand and supply of currencies
(d) Changes in government regulations on trade

2. **How does an increase in demand for a currency affect its exchange rate?**
(a) The exchange rate depreciates (b) The exchange rate appreciates
(c) The exchange rate remains unchanged (d) The exchange rate fluctuates wildly

3. **If the U.S. dollar depreciates against the euro, how will this impact U.S. exports to the Eurozone?**
   (a) U.S. exports will increase as they become cheaper for Eurozone consumers
   (b) U.S. exports will decrease as they become more expensive for Eurozone consumers
   (c) U.S. exports will remain unchanged as exchange rate changes have no effect on trade
   (d) U.S. exports will decrease due to higher inflation in the Eurozone

4. **What is the impact of an increase in interest rates in a country on its exchange rate?**
   (a) The exchange rate appreciates
   (b) The exchange rate depreciates
   (c) The exchange rate remains unchanged
   (d) The impact on the exchange rate cannot be determined from the information given

5. **How does political stability in a country affect its exchange rate?**
   (a) Political stability has no impact on the exchange rate
   (b) Political stability leads to a depreciation of the domestic currency
   (c) Political stability leads to an appreciation of the domestic currency
   (d) Political stability leads to fluctuations in the exchange rate

6. **If the demand for a country's currency increases in the foreign exchange market, what is the likely effect on its exchange rate?**
   (a) The exchange rate will appreciate
   (b) The exchange rate will depreciate
   (c) The exchange rate will remain unchanged
   (d) The exchange rate will fluctuate randomly

7. **How do changes in interest rates affect exchange rates?**
   (a) Higher interest rates lead to currency appreciation
   (b) Higher interest rates lead to currency depreciation
   (c) Interest rates have no impact on exchange rates
   (d) Interest rates cause fluctuations in exchange rates but do not affect the overall trend

8. **What is a speculative attack on a currency?**
   (a) A sudden increase in the value of a currency due to speculative trading
   (b) A sudden decrease in the value of a currency due to speculative trading
   (c) A coordinated effort by governments to manipulate a currency's value
   (d) A change in exchange rate regime from fixed to floating

9. **How do geopolitical events and economic indicators impact exchange rates?**
   (a) They have no impact on exchange rates
   (b) They cause temporary fluctuations, but the overall trend remains unaffected
   (c) They can cause significant and lasting changes in exchange rates
   (d) They only impact exchange rates in fixed exchange rate systems

1.8 - Devaluation (Revaluation) Vs Depreciation (Appreciation)

1. **What is devaluation of a currency?**
   (a) A decrease in the value of a currency relative to other currencies under a fixed exchange rate system
   (b) An increase in the value of a currency relative to other currencies under a floating exchange rate system
   (c) A decrease in the value of a currency relative to other currencies under a floating exchange rate system
   (d) An increase in the value of a currency relative to other currencies under a fixed exchange rate system

2. **What is revaluation of a currency?**
   (a) A decrease in the value of a currency relative to other currencies under a floating exchange rate system
   (b) An increase in the value of a currency relative to other currencies under a fixed exchange rate system
   (c) An increase in the value of a currency relative to other currencies! under a floating exchange rate system
   (d) A decrease in the value of a currency relative to other currencies under a fixed exchange rate system

3. **What is depreciation of a currency?**
   (a) A decrease in the value of a currency relative to other currencies under a fixed exchange rate system

(b) An increase in the value of a currency relative to other currencies under a floating exchange rate system

(c) A decrease in the value of a currency relative to other currencies under a floating exchange rate system

(d) An increase in the value of a currency relative to other currencies under a fixed exchange rate system

4. What is appreciation of a currency?

(a) A decrease in the value of a currency relative to other currencies under a floating exchange rate system

(b) An increase in the value of a currency relative to other currencies under a fixed exchange rate system

(c) An increase in the value of a currency relative to other currencies under a floating exchange rate system

(d) A decrease in the value of a currency relative to other currencies under a fixed exchange rate system

5. Which of the following is typically used as a policy measure to devalue or revalue a currency?

(a) Changing interest rates

(b) Buying or selling foreign currencies in the foreign exchange market

(c) Implementing capital controls

(d) Imposing tariffs on imports

6. What is revaluation of a currency?

(a) A decrease in the value of a country's currency relative to other currencies due to market forces

(b) An increase in the value of a country's currency relative to other currencies due to market forces

(c) A decrease in the value of a country's currency relative to other currencies deliberately set by the government

(d) An increase in the value of a country's currency relative to other currencies deliberately set by the government

7. What is depreciation of a currency?

(a) A decrease in the value of a country's currency relative to other currencies due to market forces

(b) An increase in the value of a country's currency relative to other currencies due to market forces

(c) A decrease in the value of a country's currency relative to other currencies deliberately set by the government

(d) An increase in the value of a country's currency relative to other currencies deliberately set by the government

8. **What is appreciation of a currency?**

(a) A decrease in the value of a 'country's currency relative to other currencies due to market forces

(b) An increase in the value of a country's currency relative to other currencies due to market forces

(c) A decrease in the value of a country's currency relative to other currencies deliberately set by the government

(d) An increase in the value of a country's currency relative to other Currencies deliberately set by the government

9. **Which of the following is an example of a government policy that can lead to devaluation?**

(a) Lowering interest rates
(b) Implementing fiscal austerity measures
(c) Introducing capital controls
(d) Selling foreign exchange reserves

1.9 - Impacts of Exchange Rate Fluctuations on Domestic Economy

1. **How does currency depreciation impact a country's exports?**

(a) It makes exports more expensive for foreign buyers, reducing export competitiveness

(b) It makes exports cheaper for foreign buyers, increasing export competitiveness

(c) It has no impact on exports

(d) It only impacts the quantity of exports, not the price

2. **What effect does currency appreciation have on a country's imports?**

(a) It makes imports more expensive, reducing import volumes

(b) It makes imports cheaper, increasing import volumes

(c) It has no impact on imports

(d) It only impacts the quantity of imports, not the price

3. **How does a weaker domestic currency (depreciation) affect inflation in the country?**
   (a) It leads to higher inflation due to increased import costs
   (b) It leads to lower inflation due to reduced import costs
   (c) It has no impact on inflation:
   (d) It only impacts inflation in the long term, not the short term

4. **How does exchange rate volatility impact foreign direct investment (FDI)?**
   (a) It encourages FDI by reducing uncertainty for investors
   (b) It discourages FDI due to increased risk and uncertainty
   (c) It has no impact on FDI
   (d) It only affects FDI from certain countries, not all investors

5. **What is the impact of exchange rate fluctuations on a country's balance of trade (trade balance)?**
   (a) It has no impact on the trade balance
   (b) It always leads to a trade surplus
   (c) It always leads to a trade deficit
   (d) It can lead to either a trade surplus or a trade deficit depending on other factors

6. **How does currency depreciation impact a country's imports?**
   (a) Imports increase as foreign goods become cheaper for domestic buyers
   (b) Imports decrease as foreign goods become more expensive for domestic buyers
   (c) Imports remain unchanged as foreign goods maintain the same price for domestic buyers
   (d) Imports are not affected by exchange rate fluctuations

7. **What is the impact of currency appreciation on a country's inflation rate?**
   (a) Inflation rate increases as imported goods become cheaper
   (b) Inflation rate decreases as imported goods become cheaper
   (c) Inflation rate remains unchanged as imported goods maintain the same price
   (d) Inflation rate is not affected by exchange rate fluctuations

8. **How do exchange rate fluctuations affect the tourism industry?**
   (a) Exchange rate fluctuations have no impact on the tourism industry
   (b) Depreciation of the domestic currency attracts more foreign tourists

(c) Appreciation of the domestic currency attracts more foreign tourists
(d) Exchange rate fluctuations only affect business travel, not tourism

9. **What is the impact of exchange rate volatility on foreign direct investments (FDI)?**
(a) Exchange rate volatility has no impact on FDI
(b) FDI increases as investors seek to benefit from exchange rate fluctuations
(c) FDI decreases as investors perceive higher risks due to exchange rate uncertainty
(d) Exchange rate volatility only affects portfolio investments, not FDI

Additional Question Bank

1.1 - Introduction

1. **The exchange rate is the:**
(a) Rate at which one currency can be exchanged for another currency
(b) Rate at which a country's central bank lends money to commercial banks
(c) Rate at which a country's government borrows money from foreign lenders
(d) Rate at which a country's inflation is calculated

2. **An appreciation of a country's currency means that:**
(a) Its exchange rate has decreased, making its exports more expensive
(b) Its exchange rate has increased, making its exports more expensive
(c) Its exchange rate has decreased, making its exports more competitive
(d) Its exchange rate has increased, making its exports more competitive

3. **A depreciation of a country's currency means that:**
(a) Its exchange rate has decreased, making its imports more expensive
(b) Its exchange rate has increased, making its imports more expensive
(c) its exchange rate has decreased, making its imports more affordable
(d). Its exchange rate has increased, making its imports more affordable

4. **The impact of a currency appreciation on a country's economy includes:**
(a) Increased export competitiveness and lower import costs
(b) Reduced export competitiveness and higher import costs
(c) Increased inflation and higher interest rates
(d) Decreased inflation and lower interest rates

5. **A flexible exchange rate system is one in which:**
(a) The exchange rate is fixed and controlled by the central bank
(b) The exchange rate is determined by market forces of supply and demand
(c) The exchange rate is pegged to a specific commodity such as gold
(d) The exchange rate is determined by a committee of international economists

1.2 - The Exchange Rate

1. **The exchange rate is the price of one currency expressed in terms of another currency. It tells us:**
(a) The inflation rate of a country.
(b) The interest rate set by the central bank
(c) The rate at which goods are exchanged in international trade
(d) The rate at which one currency can be exchanged for another currency

2. **A fixed exchange rate system is one in which:**
(a) The exchange rate fluctuates freely based on market forces
(b) The exchange rate is determined by a committee of international economists
(c) The exchange rate is pegged or fixed relative to a specific currency or a basket of currencies
(d) The exchange rate is set by the World Trade Organization (WTO)

3. **In a floating exchange rate system:**
(a) The exchange rate is fixed and does not change over time
(b) The exchange rate is determined by supply and demand in the foreign exchange market
(c) The exchange rate is determined by government authorities and central banks
(d) The exchange rate is the same for all countries

4. **The exchange rate between two currencies can be influenced by factors such as:**
(a) The weather conditions in each country
(b) The political stability of the countries
(c) The population size of each country
(d) The interest rate differentials and economic performance of the countries

5. **If the exchange rate between the US dollar (USD) and the Euro (EUR) is 1 USD = 0.85 EUR, how many Euros would you get for 100 US dollars?**
(a) 85 EUR (b) 115 EUR (c) 100 EUR (d) 120 EUR

1.3 - The Exchange Rate Regimes

1. **An exchange rate regime refers to:**
   (a) The rate at which one currency can be exchanged for another currency
   (b) The system or framework used by a country to determine its exchange rate policy
   (c) The process of converting one currency into another for international trade
   (d) The rate at which a country's central bank lends money to commercial banks

2. **In a fixed exchange rate regime, the exchange rate is:**
   (a) Determined by market forces of supply and demand
   (b) Allowed to fluctuate freely without intervention
   (c) Pegged or fixed relative to a specific currency or a basket of currencies
   (d) Determined by a committee of international economists

3. **Under a floating exchange rate regime, the exchange rate is primarily determined by:**
   (a) Market forces of supply and demand in the foreign exchange market
   (b) Government authorities and central banks
   (c) The World Trade Organization (WTO)
   (d) A fixed formula set by the International Monetary Fund (IMF)

4. **A managed or dirty float exchange rate regime is characterized by:**
   (a) Frequent and significant fluctuations in the exchange rate
   (b) A completely fixed exchange rate that does not change over time
   (c) Minimal government intervention in the foreign exchange market
   (d) Frequent government intervention to influence the exchange rate without fully fixing it

5. **A currency board system is a type of exchange rate regime where:**
   (a) The central bank completely controls and manages the exchange. rate
   (b) The exchange rate is determined by a committee of international economists
   (c) The central bank pegs the domestic currency to a foreign currency at a fixed rate
   (d) The exchange rate is allowed to fluctuate freely based on market forces

1.4 - Nominal Versus Real Exchange Rates

1. **The nominal exchange rate is the:**
   (a) Rate at which one currency can be exchanged for another currency in the foreign exchange market
   (b) Rate at which a country's central bank lends money to commercial banks
   (c) Rate at which a country's inflation is calculated
   (d) Rate at which goods are exchanged in international trade

2. **The real exchange rate is the nominal exchange rate adjusted for:**
   (a) Interest rate differentials between countries
   (b) Inflation differentials between countries
   (c) Differences in the GDP of countries
   (d) Differences in the unemployment rates of countries

3. **The real exchange rate reflects the relative purchasing power of currencies and provides information about:**
   (a) The interest rate set by the central bank
   (b) The GDP growth rate of a country
   (c) The rate of inflation in a country
   (d) The relative price levels between countries

4. **If the nominal exchange rate between the US dollar (US(D) and the Euro (EUR) is 1 USD = 0.85 EUR, and the inflation rate in the US is 2% while the inflation rate in the Eurozone is 1%, which of the following represents the real exchange rate between USD and EUR?**
   (a) 0.85 EUR (b) 0.8345 EUR (c) 0.8685 EUR (d) 0.87 EUR

5. **An increase in a country's inflation rate compared to its trading partners will likely lead to:**
   (a) An appreciation of its nominal exchange rate
   (b) A depreciation of its nominal exchange rate
   (c) No change in its nominal exchange rate
   (d) A fixed exchange rate with no fluctuations

1.5 - The Foreign Exchange Market

1. **The foreign exchange market is a decentralized global market where currencies are traded. Which of the following participants is the most active in the foreign exchange market?**
   (a) Governments and central banks (b) Commercial banks
   (c) Multinational corporations (d) Individual retail traders

2. **The foreign exchange market operates 24 hours a day, five days a week, due to:**
   (a) The need for constant access to currency conversion services for travelers
   (b) The continuous trading sessions in different time zones around the world
   (c) The influence of international organizations like the World Bank
   (d) Government regulations that require round-the-clock trading

3. **The primary financial centers for foreign exchange trading include all of the following cities except:**
   (a) New York (b) London (c) Tokyo (d) Paris

4. **The most commonly traded currency pair in the foreign exchange market is:**
   (a) USD/EUR (US Dollar/Euro)
   (b) USD/JPY (US Dollar/Japanese Yen)
   (c) GBP/USD (British Pound/US Dollar)
   (d) EUR/JPY (Euro/Japanese Yen)

5. **The foreign exchange market facilitates currency trading for various purposes, including:**
   (a) Speculation on short-term price movements
   (b) Foreign direct investment (FDI)
   (c) Trading of commodities like gold and silver
   (d) International monetary policy coordination

1.6 - Determination of Nominal Exchange Rate

1. **The nominal exchange rate is determined in the foreign exchange market by the interaction of:**
   (a) Central banks and governments of different countries
   (b) Commercial banks and multinational corporations

(c) Supply and demand for currencies

(d) The World Trade Organization (WTO) and the International Monetary Fund (IMF)

2. **An increase in the demand for a country's currency in the foreign exchange market will likely lead to:**

(a) A depreciation of its currency's exchange rate

(b) An appreciation of its currency's exchange rate

(c) No change in its currency's exchange rate

(d) A fixed exchange rate with no fluctuations

3. **Factors that can influence the demand for a currency in the foreign exchange market include:**

(a) Interest rate differentials between countries

(b) Differences in GDP growth rates between countries

(c) Political stability and economic performance of countries

(d) All of the above

4. **In a flexible exchange rate system, if a country experiences an increase in its trade deficit, the likely impact on its currency's exchange rate will be:**

(a) An appreciation of the currency

(b) A depreciation of the currency

(c) No change in the currency's exchange rate

(d) A fixed exchange rate with no fluctuations

5. **The nominal exchange rate can be influenced by various speculative activities in the foreign exchange market. This type of trading is often driven by expectations of:**

(a) Central bank interventions

(b) Future inflation rates in the country

(c) Political events and economic indicators

(d) A fixed exchange rate system

1.7 - Changes in Exchange Rates

1. **A currency's exchange rate can change due to various factors. Which of the following is NOT a factor that can influence changes in exchange rates?**
   (a) Interest rate differentials between countries.
   (b) Political stability and economic performance of countries
   (c) The World Trade Organization (WTO) regulations
   (d) Speculative activities in the foreign exchange market

2. **In a flexible exchange rate system, an increase in the demand for a country's goods and services in international markets is likely to result in:**
   (a) An appreciation of the country's currency
   (b) A depreciation of the country's currency
   (c) No change in the country's currency value
   (d) A fixed exchange rate with no fluctuations

3. **Changes in exchange rates can have various effects on a country's economy. An appreciation of the domestic currency can benefit the economy by:**
   (a) Making imports cheaper and boosting domestic consumption
   (b) Making exports more expensive and reducing trade competitiveness
   (c) Encouraging foreign direct investment (FDI) from other countries
   (d) Reducing interest rates and stimulating investment and borrowing

4. **If a country's currency depreciates significantly, it may lead to a potential risk of:**
   (a) Lower inflation and increased purchasing power for consumers
   (b) Capital flight and loss of foreign investor confidence
   (c) Trade surplus and increased exports
   (d) Lower interest rates and increased investment

5. **A sudden and significant change in exchange rates caused by unexpected economic or political events is known as:**
   (a) A currency board system (b) Exchange rate volatility
   (c) A fixed exchange rate regime (d) Purchasing power parity (PPP)

1.8 - Devaluation (Revaluation) Vs Depreciation (Appreciation)

1. **Devaluation and revaluation refer to changes in the exchange rate set by:**
   (a) Commercial banks in the foreign exchange market
   (b) Market forces of supply and demand
   (c) Government authorities and central banks
   (d) The International Monetary Fund (IMF)

2. **Devaluation of a currency is a deliberate decision by a country's central bank to:**
   (a) Increase the value of its currency in the foreign exchange market
   (b) Lower the value of its currency in the foreign exchange market
   (c) Peg its currency to a foreign currency at a fixed rate
   (d) Allow its currency to float freely without intervention

3. **Revaluation of a currency is a deliberate decision by a country's central bank to:**
   (a) Increase the value of its currency in the foreign exchange market
   (b) Lower the value of its currency in the foreign exchange market
   (c) Peg its currency to a foreign currency at a fixed rate
   (d) Allow its currency to float freely without intervention

4. **Depreciation of a currency is a change in the exchange rate that occurs due to:**
   (a) Market forces of supply and demand in the foreign exchange market
   (b) Frequent government interventions in the foreign exchange market
   (c) Fixed exchange rate systems implemented by central banks
   (d) The World Trade Organization (WTO) regulations

5. **Appreciation of a currency is a change in the exchange rate that occurs due to:**
   (a) Market forces of supply and demand in the foreign exchange market
   (b) Frequent government interventions in the foreign exchange market
   (c) Fixed exchange rate systems implemented by central banks
   (d) The World Trade Organization (WTO) regulations

1.9 - Impacts of Exchange Rate Fluctuations on Domestic Economy

1. **A depreciation of the domestic currency can have a positive impact on the domestic economy by:**
   (a) Making imports cheaper and stimulating domestic consumption
   (b) Making exports more expensive and reducing trade competitiveness
   (c) Encouraging foreign direct investment (FDI) from other countries
   (d) Reducing interest rates and stimulating investment and borrowing

2. **An appreciation of the domestic currency can negatively affect the domestic economy by:**
   (a) Making imports more expensive and reducing domestic consumption
   (b) Making exports cheaper and boosting trade competitiveness
   (c) Attracting more foreign direct investment (FDI) to the country
   (d) Increasing interest rates and reducing investment and borrowing

3. **Exchange rate fluctuations can impact inflation in the domestic economy. A depreciation of the domestic currency is likely to result in:**
   (a) Higher inflation, as imported goods become more expensive
   (b) Lower inflation, as imported goods become more affordable
   (c) No impact on inflation, as exchange rates do not affect prices
   (d) A fixed exchange rate with no fluctuations

4. **A depreciation of the domestic currency can benefit domestic producers by:**
   (a) Increasing the cost of imported raw materials and inputs
   (b) Making domestic goods more expensive for foreign buyers
   (c) Reducing the competitiveness of domestic goods in foreign markets
   (d) Encouraging imports and discouraging domestic production

5. **The impact of exchange rate fluctuations on the domestic economy can vary depending on the country's level of economic openness. In a highly open economy, exchange rate fluctuations are likely to have a more significant impact on:**
   (a) Government spending and fiscal policy
   (b) Unemployment and labor market conditions
   (c) International trade and export-import dynamics
   (d) Interest rates and monetary policy decisions

ANSWERS (Unit 4):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	A	5.	A
6.	B	7.	B	8.	D	9.	B		

1.2 – The Exchange Rate

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	B	4.	B		

1.3 – The Exchange Rate Regimes

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	C	5.	C
6.	C	7.	B	8.	C	9.	D	10.	C
11.	D	12.	B	13.	C	14.	A	15.	B
16.	A	17.	B	18.	B	19.	C		

1.4 – Nominal Versus REAL Exchange Rates

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	D	3.	D	4.	A	5.	A
6.	A	7.	C	8.	A	9.	D	10.	A
11.	A	12.	A	13.	B	14.	B		

1.5 – The Foreign Exchange Market

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	A	4.	D	5.	B
6.	B	7.	C	8.	B	9.	C		

1.6 – Determination of Nominal Exchange Rate

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	B	4.	C	5.	B
6.	A	7.	D	8.	A	9.	C		

1.7 – Changes in Exchange Rates

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	A	4.	A	5.	C
6.	A	7.	A	8.	B	9.	C		

1.8 – Devaluation (Revaluation) Vs Depreciation (Appreciation)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	B	3.	C	4.	C	5.	B
6.	D	7.	A	8.	B	9.	D		

1.9 – Impacts of Exchange Rate Fluctuations on Domestic Economy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	A	4.	B	5.	D
6.	B	7.	A	8.	B	9.	C		

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	D	3.	C	4.	B	5.	B

1.2 – The Exchange Rate

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	B	4.	D	5.	B

1.3 – The Exchange Rate Regimes

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	A	4.	D	5.	C

1.4 – Nominal Versus REAL Exchange Rates

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	B	3.	D	4.	C	5.	B

1.5 – The Foreign Exchange Market

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	D	4.	B	5.	A

1.6 – Determination of Nominal Exchange Rate

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	D	4.	B	5.	C

1.7 – Changes in Exchange Rates

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	B	4.	B	5.	B

1.8 – Devaluation (Revaluation) Vs Depreciation (Appreciation)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	A	4.	A	5.	A

1.9 – Impacts of Exchange Rate Fluctuations on Domestic Economy

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	A	4.	B	5.	C

Unit 5: International Capital Movements

1.1 - Introduction

1. **What are international capital movements?**
   (a) Movements of goods and services between countries
   (b) Movements of people between countries for employment purposes
   (c) Movements of financial assets and liabilities between countries
   (d) Movements of foreign aid and grants between countries

2. **Which of the following is an example of a capital inflow?**
   (a) A country exporting goods to another country
   (b) A country receiving foreign direct investments (FDI) from abroad
   (c) A country borrowing money from an international organization
   (d) A country granting foreign aid to another country

3. **What is the primary motivation behind international capital movements?**
   (a) To promote international trade and exchange of goods
   (b) To facilitate foreign aid and humanitarian assistance
   (c) To earn profits and achieve higher returns on investments
   (d) To strengthen diplomatic relations between countries

4. **How do capital movements impact exchange rates?**
   (a) Capital movements have no impact on exchange rates
   (b) Capital inflows lead to currency appreciation, and capital outflows lead to currency depreciation
   (c) Capital inflows lead to currency depreciation, and capital outflows lead to currency appreciation
   (d) Capital movements cause exchange rates to fluctuate randomly

5. **What is the role of capital controls in managing international capital movements?**
   (a) Capital controls encourage free and unrestricted capital movements between countries
   (b) Capital controls limit the flow of financial assets between countries

(c) Capital controls only apply to foreign direct investments (FDI) and not to portfolio investments

(d) Capital controls are only implemented during financial crises

6. **What are international capital movements?**

(a) The movement of goods and services across borders.

(b) The flow of money and financial assets between countries

(c) The exchange of currencies in the foreign exchange market

(d) The movement of labor across borders

7. **Which of the following is an example of foreign direct investment (FDI)?**

(a) A foreign company purchasing goods from a domestic company

(b) A domestic investor buying shares of a foreign company's stock

(c) A domestic company setting up a subsidiary in a foreign country

(d) A foreign country imposing tariffs on imported goods

8. **What is portfolio investment in the context of international capital movements?**

(a) Investment in physical assets like real estate in foreign countries

(b) Investment in a diversified portfolio of stocks and bonds in foreign markets

(c) Investment in infrastructure projects in foreign countries.

(d) Investment in foreign companies' manufacturing plants

9. **How do international capital movements impact domestic economies?**

(a) They have no impact on domestic economies

(b) They lead to higher inflation rates in domestic economies

(c) They can contribute to economic growth and development

(d) They lead to a decrease in foreign exchange reserves

10. **What is capital flight?**

(a) The movement of foreign capital into a domestic economy

(b) The movement of domestic capital into a foreign economy

(c) The rapid increase in foreign direct investments

(d) The rapid increase in exports of a country

1.2 - Types of Foreign Capital

1. **What is Foreign Direct Investment (FDI)?**
   (a) Investment in foreign financial markets by domestic investors
   (b) Investment in domestic financial markets by foreign investors
   (c) Investment in a foreign company to gain significant ownership and control
   (d) Investment in foreign currencies for speculative purposes

2. **What is Portfolio Investment?**
   (a) Investment in a foreign company to gain significant ownership and control
   (b) Investment in foreign financial markets by domestic investors
   (c) Investment in domestic financial markets by foreign investors
   (d) Investment in foreign currencies for speculative purposes

3. **What is Foreign Institutional Investment (FII)?**
   (a) Investment by domestic institutions in foreign companies
   (b) Investment by foreign institutions in domestic companies
   (c) Investment in a foreign company to gain significant ownership and control
   (d) Investment in foreign currencies for speculative purposes

4. **What is Foreign Portfolio Investment (FPI)?**
   (a) Investment in foreign financial markets by domestic investors
   (b) Investment by domestic institutions in foreign companies.
   (c) Investment in a foreign company to gain significant ownership and control
   (d) Investment in foreign currencies for speculative purposes

5. **What is Foreign Aid?**
   (a) Investment in foreign financial markets by domestic investors
   (b) Investment by foreign institutions in domestic companies
   (c) Financial assistance provided by one country to another for development projects
   (d) Investment in foreign currencies for speculative purposes

6. **What is Foreign Direct Investment (FDI)?**
   (a) Investment in a diverse portfolio of stocks and bonds in foreign markets
   (b) Investment in physical assets like real estate in foreign countries

(c) Investment in short-term money market instruments in foreign markets

(d) Investment in a foreign company's manufacturing plants and operations

7. **What is Foreign Portfolio Investment (FPI)?**

(a) Investment in a diverse portfolio of stocks and bonds in foreign markets

(b) Investment in physical assets like real estate in foreign countries

(c) Investment in short-term money market instruments in foreign markets

(d) Investment in a foreign company's manufacturing plants and operations

8. **What is Foreign Institutional Investment (FII)?**

(a) Investment in a diverse portfolio of stocks and bonds in foreign markets

(b) Investment in physical assets like real estate in foreign countries

(c) Investment in short-term money market instruments in foreign markets

(d) Investment made by foreign institutions in the domestic market

9. **What is Foreign Aid?**

(a) Investment in a diverse portfolio of stocks and bonds in foreign markets

(b) Financial assistance provided by one country to another for development projects

(c) Investment in short-term money market instruments in foreign markets

(d) Investment made by foreign institutions in the domestic market

10. **What is Foreign Debt?**

(a) Investment in a diverse portfolio of stocks and bonds in foreign markets

(b) Financial assistance provided by one country to another for development projects

(c) Debt owed by a country to foreign lenders or governments

(d) Investment made by foreign institutions in the domestic market

1.3 - Foreign Direct Investment (FDI)

1. **What is Foreign Direct Investment (FDI)?**

(a) Investment made by foreign individuals in the domestic stock market

(b) Investment in foreign stocks and bonds through mutual funds

(c) Investment in a foreign country to establish or acquire businesses or assets

(d) Investment in short-term money market instruments in foreign markets

2. **What distinguishes Foreign Direct Investment (FDI) from Foreign Portfolio Investment (FPI)?**
   (a) FDI involves investing in a diverse portfolio of foreign stocks and bonds.
   (b) FDI involves short-term investments in foreign money market instruments.
   (c) FDI involves acquiring significant ownership in foreign companies or assets.
   (d) FDI involves lending money to foreign governments.

3. **Which of the following is an example of Foreign Direct Investment (FDI)?**
   (a) A foreign investor purchasing shares of a domestic company in the stock market.
   (b) A domestic company setting up a subsidiary in a foreign country to produce goods.
   (c) A domestic investor buying foreign stocks through an exchange-traded fund (ETF).
   (d) A foreign company acquiring foreign government bonds.

4. **What motivates companies to engage in Foreign Direct Investment (FDI)?**
   (a) Short-term financial gains through speculative trading.
   (b) Access to new markets, resources, and technologies.
   (c) Hedging against currency fluctuations in the foreign exchange market.
   (d) Speculating on changes in interest rates in foreign markets.

5. **Which of the following is a potential benefit of Foreign Direct Investment (FDI) for the host country?**
   (a) Increased exposure to foreign exchange rate fluctuations.
   (b) Decreased job opportunities due to competition from foreign investors.
   (c) Technology transfer and knowledge spillovers.
   (d) Limited access to global markets for local businesses.

6. **What is Foreign Direct Investment (FDI)?**
   (a) Investment in a diverse portfolio of stocks and bonds in foreign markets
   (b) Investment in physical assets like real estate in foreign countries
   (c) Investment in short-term money market instruments in foreign markets
   (d) Investment made by foreign institutions in the domestic market

7. **Which of the following is an example of FDI?**
(a) A foreign investor buying shares of a foreign company's stock
(b) A domestic company setting up a subsidiary in a foreign country
(c) A foreign company purchasing goods from a domestic company
(d) A domestic investor investing in foreign government bonds

8. **What distinguishes FDI from other types of foreign capital flows?**
(a) FDI involves short-term investments in financial assets
(b) FDI involves investments in a diverse portfolio of stocks and bonds
(c) FDI involves long-term investments in physical assets and businesses
(d) FDI involves providing financial aid to foreign countries

9. **How does FDI contribute to economic development in host countries?**
(a) FDI leads to increased trade deficits in host countries
(b) FDI has no impact on the host country's economy
(c) FDI creates job opportunities and boosts infrastructure development
(d) FDI increases the cost of living for local residents

10. **What are the potential risks of FDI for host countries?**
(a) Increased employment opportunities for local residents
(b) Dependence on foreign investors for economic growth
(c) Decreased technology transfer to the host country
(d) Improved competitiveness of local industries

1.4 - Foreign Portfolio Investment (FPI)

1. **What is Foreign Portfolio Investment (FPI)?**
(a) Investment in a diverse portfolio of stocks and bonds in foreign markets
(b) Investment in physical assets like real estate in foreign countries
(c) Investment in short-term money market instruments in foreign markets
(d) Investment made by foreign institutions in the domestic market

2. **Which of the following is an example of FPI?**
(a) A foreign company setting up a subsidiary in a domestic country
(b) A domestic investor buying shares of a domestic company's stock

(c) A domestic company purchasing real estate in a foreign country
(d) A foreign institutional investor buying shares of a foreign company's stock

3. **What is the primary objective of FPI?**
(a) Long-term ownership and control of foreign businesses
(b) Capital appreciation and short-term profits
(c) Investment in physical assets for industrial purposes
(d) Providing financial aid to foreign countries

4. **How does FPI differ from Foreign Direct Investment (FDI)?**
(a) FPI involves investments in physical assets and businesses
(b) FPI involves long-term ownership and control of foreign businesses
(c) FPI involves short-term investments in financial assets
(d) FPI involves providing financial aid to foreign countries

5. **How can FPI affect the volatility of financial markets in host countries?**
(a) FPI has no impact on the volatility of financial markets
(b) FPI reduces the volatility of financial markets by diversifying investments
(c) FPI can increase the volatility of financial markets due to capital flows
(d) FPI only affects the volatility of foreign financial markets

6. **How is FPI different from Foreign Direct Investment (FDI)?**
(a) FPI involves long-term investments in physical assets, while FDI involves short-term investments in financial assets.
(b) FPI involves investments in a diverse portfolio of stocks and bonds, while FDI involves investment in a foreign company's manufacturing plants and operations.
(c) FPI involves investments in infrastructure projects in foreign countries, while FDI involves providing financial aid to foreign countries.
(d) FPI involves investment in the domestic market by foreign institutions, while FDI involves investment by domestic companies in foreign countries.

7. **Which of the following is an example of Foreign Portfolio Investment (FPI)?**
(a) A foreign company setting up a subsidiary in a foreign country
(b) A domestic investor buying shares of a foreign company's stock

(c) A foreign company purchasing goods from a domestic company

(d) A domestic company investing in foreign real estate

8. **What is the primary objective of investors engaging in FPI?**

(a) To gain control and ownership in foreign businesses

(b) To acquire physical assets in foreign countries

(c) To maximize short-term profits from currency fluctuations

(d). To diversify their investment portfolio and earn returns

9. **How does FPI impact the foreign exchange market?**

(a) FPI has no impact on the foreign exchange market

(b) FPI leads to increased exchange rate volatility

(c) FPI affects the demand and supply of foreign currencies

(d) FPI only impacts the stock market, not the foreign exchange market

1.5 - Reasons for Foreign Direct Investment

1. **Which of the following is a primary reason for Foreign Direct Investment (FDI)?**

(a) To diversify investment portfolios

(b) To gain short-term profits from currency fluctuations

(c) To establish a physical presence in a foreign market

(d) To provide financial aid to foreign countries

2. **How does FDI contribute to market expansion for multinational corporations?**

(a) FDI leads to market contraction as companies focus on domestic operations

(b) FDI allows companies to serve only domestic markets

(c) FDI provides access to new foreign markets and customers

(d) FDI limits companies to specific industries and sectors

3. **Why do companies engage in FDI for resource acquisition?**

(a) To increase competition in the domestic market

(b) To access foreign markets with cheaper resources

(c) To reduce dependence on foreign suppliers

(d) To discourage international trade

4. **What role does FDI play in technology transfer?**
   (a) FDI restricts technology transfer between countries
   (b) FDI does not impact technology transfer
   (c) FDI encourages the transfer of technology to host countries
   (d) FDI is limited to specific technology-based industries

5. **How does FDI contribute to employment generation?**
   (a) FDI leads to job losses as domestic companies face increased competition
   (b) FDI has no impact on employment in host countries
   (c) FDI creates job opportunities through new business establishments
   (d) FDI focuses only on expatriate hiring, neglecting local workforce

6. **What are the primary reasons for Foreign Direct Investment (FDI)?**
   (a) To provide financial aid to foreign countries
   (b) To diversify investment portfolios and reduce risk
   (c) To gain control and ownership in foreign businesses
   (d) To invest in a diverse portfolio of stocks and bonds

7. **How does FDI contribute to technology transfer?**
   (a) FDI reduces technology transfer as companies prefer to retain technology within their home country
   (b) FDI has no impact on technology transfer between countries
   (c) FDI encourages technology transfer as companies bring advanced technologies to host countries
   (d) FDI limits technology transfer due to intellectual property protection concerns

8. **What role does FDI play in stimulating economic growth in host countries?**
   (a) FDI has no impact on economic growth in host countries
   (b) FDI stimulates economic, growth by promoting competition and efficiency
   (c) FDI only leads to economic growth in the home country of the investing company
   (d) FDI stimulates economic growth by increasing the trade deficit in host countries

9. **How does FDI contribute to job creation in host countries?**
(a) FDI does not contribute to job creation in host countries
(b) FDI creates jobs only in the primary sector, such as agriculture
(c) FDI creates jobs in the primary, secondary, and tertiary sectors of the economy
(d) FDI creates jobs in the host country's government sector only

10. **What is the relationship between FDI and infrastructure development in host countries?**
(a) FDI has no impact on infrastructure development in host countries
(b) FDI leads to infrastructure development only in the home country of the investing company
(c) FDI can contribute to infrastructure development in host countries through investments in key sectors
(d) FDI leads to a decline in infrastructure quality in host countries

1.6 - Modes of Foreign Direct Investment (FDI)

1. **What are the different modes of Foreign Direct Investment (FDI)?**
(a) Outward FDI and Inward FDI
(b) Horizontal FDI and Vertical FDI
(c) Greenfield investment and Cross-border Mergers and Acquisitions (M&(a)
(d) Portfolio Investment and Direct Investment

2. **What is Greenfield investment in the context of FDI?**
(a) Acquisition of an existing foreign company
(b) Investment in a diverse portfolio of stocks and bonds in foreign markets
(c) Setting up new businesses or facilities in a foreign country
(d) Providing financial aid to foreign countries

3. **What is Cross-border Mergers and Acquisitions (M&(a) as a mode of FDI?**
(a) Investment in a diverse portfolio of stocks and bonds in foreign markets
(b) Acquisition of an existing foreign company
(c) Setting up new businesses or facilities in a foreign country
(d) Providing financial aid to foreign countries

4. How does Horizontal FDI differ from Vertical FDI?

(a) Horizontal FDI involves investment in unrelated industries, while Vertical FDI involves investment in related industries.

(b) Horizontal FDI involves investment in the same industry in different countries, while Vertical FDI involves investment in different industries in the same country.

(c) Horizontal FDI involves investment in foreign stocks and bonds, while Vertical FDI involves investment in physical assets.

(d) Horizontal FDI and Vertical FDI are the same; they refer to different terms for the same investment mode.

5. What is the difference between Outward FDI and Inward FDI?

(a) Outward FDI refers to FDI flows out of a country, while Inward FDI refers to FDI flows into a country.

(b) Outward FDI involves Greenfield investment, while Inward FDI involves Cross-border Mergers and Acquisitions (M&(a).

(c) Outward FDI is carried out by domestic companies, while Inward FDI is carried out by foreign companies.

(d) Outward FDI has no impact on the home country's economy, while Inward FDI has no impact on the host country's economy.

6. What is Greenfield FDI?

(a) FDI that involves acquiring existing companies in a foreign country

(b) FDI that involves setting up new businesses or facilities in a foreign country

(c) FDI that involves portfolio investments in foreign stocks and bonds

(d) FDI that involves short-term investments in financial assets

7. What is Brownfield FDI?

(a) FDI that involves acquiring existing companies in a foreign country

(b) FDI that involves setting up new businesses or facilities in a foreign country

(c) FDI that involves portfolio investments in foreign stocks and bonds

(d) FDI that involves short-term investments in financial assets

8. What is the key difference between Greenfield FDI and Brownfield FDI?

(a) The level of risk involved in the investment

(b) The source country of the FDI

(c) The type of industry involved in the investment

(d) The stage of development of the host country's economy

9. **What is Cross-Border Mergers and Acquisitions (M&(a) FDI?**

(a) FDI that involves acquiring existing companies in the home country

(b) FDI that involves setting up new businesses or facilities in a foreign country

(c) FDI that involves acquiring or merging with foreign companies

(d) FDI that involves investments in a diverse portfolio of foreign stocks and bonds

10. **What is Vertical FDI?**

(a) FDI that involves acquiring existing companies in a foreign country

(b) FDI that involves setting up new businesses or facilities in a foreign country

(c) FDI that involves investments in companies operating in the same industry

(d) FDI that involves investments in companies at different stages of the production process

1.7 - Benefits of Foreign Direct Investment

1. **How does Foreign Direct Investment (FDI) contribute to job creation in host countries?**

(a) FDI does not contribute to job creation in host countries

(b) FDI creates jobs only in the primary sector, such as agriculture

(c) FDI creates jobs in the primary, secondary, and tertiary sectors of the economy

(d) FDI creates jobs in the host country's government sector-only

2. **How does FDI impact technology transfer in host countries?**

(a) FDI reduces technology transfer as companies prefer to retain technology within their home country

(b) FDI has no impact on technology transfer between countries

(c) FDI encourages technology transfer as companies bring advanced technologies to host countries

(d) FDI limits technology transfer due to intellectual property protection concerns

3. What role does FDI play in stimulating economic growth in host countries?

(a) FDI has no impact on economic growth in host countries

(b) FDI stimulates economic growth by promoting competition and efficiency

(c) FDI only leads to economic growth in the home country of the investing company

(d) FDI stimulates economic growth by increasing the trade deficit in host countries

4. How does FDI contribute to infrastructure development in host countries?

(a) FDI has no impact on infrastructure development in host countries

(b) FDI leads to infrastructure development only in the home country of the investing company

(c) FDI can contribute to infrastructure development in host countries through investments in key sectors

(d) FDI leads to a decline in infrastructure quality in host countries

5. What is the relationship between FDI and export promotion in host countries?

(a) FDI has no impact on export promotion in host countries

(b) FDI leads to decreased exports in host countries

(c) FDI can lead to export promotion as companies use host countries as a base for exporting goods and services

(d) FDI only impacts the import sector of host countries

6. What are the potential benefits of Foreign Direct Investment (FDI) for host countries?

(a) Increased trade deficits and currency devaluation

(b) Loss of domestic ownership and control over industries

(c) Technology transfer, job creation, and economic growth

(d) Dependency on foreign investors for economic policies

7. How does FDI contribute to technology transfer in host countries?

(a) FDI has no impact on technology transfer in host countries

(b) FDI restricts technology transfer to protect intellectual property rights

(c) FDI promotes technology transfer as multinational companies bring advanced technologies

(d) FDI only transfers outdated technologies to host countries

8. **What is the role of FDI in creating job opportunities in host countries?**
(a) FDI has no impact on job creation in host countries
(b) FDI creates jobs only in the primary sector, such as agriculture
(c) FDI creates jobs in the primary, secondary, and tertiary sectors of the economy
(d) FDI only creates jobs for foreign workers, not for local residents

9. **How does FDI contribute to economic growth in host countries?**
(a) FDI has no impact on economic growth in host countries
(b) FDI leads to increased trade deficits and reduces economic growth
(c) FDI stimulates economic growth by promoting competition and efficiency
(d) FDI only benefits the investing company's home country, not the host country

10. **What is the relationship between FDI and infrastructure development in host countries?**
(a) FDI has no impact on infrastructure development in host countries
(b) FDI leads to infrastructure development only in the home country of the investing company
(c) FDI can contribute to infrastructure development in host countries through investments in key sectors
(d) FDI only contributes to infrastructure development in large host countries

1.8 - Potential Problems Associated with Foreign Direct Investment

1. **What are the potential problems associated with Foreign Direct Investment (FDI) for host countries?**
(a) Loss of domestic ownership and control over industries
(b) Limited access to advanced technologies and managerial expertise
(c) Reduced employment opportunities due to foreign labor influx
(d) Decreased competition and efficiency in the local market

2. **How can FDI lead to limited access to advanced technologies and managerial expertise in host countries?**
(a) FDI restricts technology transfer to protect intellectual property rights
(b) Foreign companies do not bring advanced technologies to host countries

(c) FDI is limited to investing in low-tech industries in host countries
(d) FDI has no impact on technology transfer in host countries

3. What is the potential problem of "resource curse" associated with FDI?
(a) Host countries become overly dependent on foreign investments
(b) FDI leads to an abundance of natural resources in host countries
(c) FDI reduces economic growth in resource-rich host countries
(d) Host countries experience a shortage of resources due to FDI

4. How can FDI impact the local labor market in host countries?
(a) FDI has no impact on the local labor market
(b) FDI leads to increased job opportunities for local workers
(c) FDI may result in wage disparities and job displacements
(d) FDI only benefits foreign workers in the host country

5. What is the potential problem of "tax competition" associated with FDI?
(a) FDI leads to an increase in corporate taxes in host countries
(b) Host countries may offer excessive tax incentives to attract FDI
(c) FDI has no impact on the tax policies of host countries
(d) FDI leads to a decrease in corporate taxes in host countries

6. How can FDI lead to resource depletion in host countries?
(a) FDI discourages the exploitation of natural resources in host countries
(b) FDI leads to increased conservation efforts in host countries
(c) FDI can result in the overexploitation of natural resources by foreign companies
(d) FDI has no impact on the utilization of resources in host countries

7. What is the potential impact of FDI on income inequality in host countries?
(a) FDI reduces income inequality by creating more job opportunities for all income groups
(b) FDI has no impact on income inequality in host countries
(c) FDI can exacerbate income inequality if benefits primarily concentrate among the wealthy
(d) FDI leads to equal distribution of income among all segments of the population

8. **How can FDI affect the environment in host countries?**
(a) FDI has no impact on the environment in host countries
(b) FDI encourages sustainable practices and environmental protection
(c) FDI can lead to environmental degradation due to lax regulations and compliance
(d) FDI improves the environment by promoting clean technologies

9. **What is the potential risk of FDI-induced capital flight in host countries?**
(a) FDI encourages capital inflow, not capital flight
(b) FDI can lead to the outflow of domestic capital due to repatriation of profits
(c) FDI has no impact on domestic capital flows in host countries
(d) FDI can lead to increased domestic savings and investment

1.9 - Foreign Direct Investment in India

1. **What has been the trend of FDI inflows into India in recent years?**
(a) Declining trend
(b) Stable with no significant changes
(c) Fluctuating between high and low levels
(d) Increasing trend

2. **Which sector attracts the highest FDI inflows in India?**
(a) Manufacturing (b) Agriculture (c) Services (d) Mining

3. **What is the government agency responsible for promoting and regulating. FDI in India?**
(a) Reserve Bank of India (RBI)
(b) Securities and Exchange Board of India (SEBI)
(c) Foreign Investment Promotion Board (FIP(b)
(d) Department for Promotion of Industry and Internal Trade (DPIIT)

4. **What are the key factors that attract foreign investors to India?**
(a) Low population and market size
(b) Lack of skilled labor force
(c) Favorable economic policies and market potential
(d) High corporate tax rates

5. **What is the "Make in India" campaign aimed at?**
(a) Encouraging foreign companies to exit the Indian market
(b) Promoting domestic consumption of goods and services
(c) Attracting foreign investment and promoting manufacturing in India
(d) Encouraging Indian companies to invest overseas

6. **What is the current regulatory body responsible for overseeing Foreign Direct Investment (FDI) in India?**
(a) Reserve Bank of India (RBI)
(b) Securities and Exchange Board of India (SEBI)
(c) Ministry of Finance, Government of India
(d) Department for Promotion of Industry and Internal Trade (DPIIT)

7. **Which sector has traditionally attracted the highest FDI inflows in India?**
(a) Information Technology (IT) and Business Process Outsourcing (BPO)
(b) Agriculture and Agribusiness
(c) Retail and Consumer Goods
(d) Manufacturing and Automotive

8. **What is the maximum limit of FDI-allowed in the insurance sector in India?**
(a) 26% (b) 49% (c) 74% (d) 100%

9. **Which policy initiative by the Indian government aims to improve the ease of doing business and attract more FDI?**
(a) Make in India (b) Swachh Bharat Abhiyan
(c) Ayushman Bharat (d) Digital India

10. **What is the primary source of Foreign Direct Investment (FDI) in India?**
(a) United States (b) China (c) United Kingdom (d) Singapore

1.10 - Overseas Direct Investment by Indian Companies

1. **What is Overseas Direct Investment (ODI) by Indian companies?**
(a) Investment made by foreign companies in India
(b) Investment made by Indian companies in foreign countries

(c) Investment made by Indian companies in other Indian companies

(d) Investment made by foreign companies in other foreign countries

2. **What motivates Indian companies to make Overseas Direct Investments (ODI)?**

(a) To reduce import of foreign goods

(b) To acquire ownership of Indian companies.

(c) To expand their global footprint and access international markets

(d) To increase competition in the domestic market

3. **How does Overseas Direct Investment (ODI) impact the Indian economy?**

(a) ODI has no impact on the Indian economy

(b) ODI' leads to increased imports and trade deficits

(c) ODI can contribute to economic growth and job creation in India

(d) ODI leads to decreased exports and a weaker currency

4. **What role does the Reserve Bank of India (RBI) play in regulating Overseas Direct Investment (ODI) by Indian companies?**

(a) RBI restricts all ODI activities by Indian companies

(b) RBI provides financial incentives to encourage ODI by Indian companies

(c) RBI monitors and regulates the ODI activities of Indian companies

(d) RBI promotes ODI in specific sectors through policy initiatives

5. **Which sector has seen significant Overseas Direct Investment (ODI) by Indian companies in recent years?**

(a) Information Technology (IT) and Business Process Outsourcing (BPO)

(b) Agriculture and Agribusiness

(c) Retail and Consumer Goods

(d) Manufacturing and Automotive

6. **What is the primary motive behind Overseas Direct Investment (ODI) by Indian companies?**

(a) To exploit natural resources of foreign countries

(b) To gain control and ownership over foreign industries

(c) To diversify business operations and expand globally

(d) To establish dominance in the global financial markets

7. **Which sector has witnessed significant Overseas Direct Investment (ODI) by Indian companies in recent years?**

(a) Information Technology (IT) and Business Process Outsourcing (BPO)

(b) Retail and Consumer Goods

(c) Manufacturing and Automotive

(d) Agriculture and Agribusiness

8. **How does Overseas Direct Investment (ODI) contribute to India's economic growth?**

(a) ODI leads to a reduction in India's foreign exchange reserves

(b) ODI has no impact on India's economic growth

(c) ODI enhances India's global competitiveness and boosts export capabilities

(d) ODI results in the outflow of skilled labor from India

9. **What role does the Reserve Bank of India (RBI) play in regulating Overseas Direct Investment (ODI) by Indian companies?**

(a) RBI regulates and monitors the FDI inflows into India

(b) RBI does not have any role in regulating ODI by Indian companies

(c) RBI facilitates and promotes ODI by providing financial assistance

(d) RBI approves and monitors ODI transactions by Indian companies

Additional Question Bank

1.1 - Introduction

1. **International capital movements refer to the:**

(a) Flow of goods and services between countries

(b) Transfer of technology and knowledge across borders

(c) Movement of financial assets and investments between countries

(d) Exchange of currencies in the foreign exchange market

2. **Foreign Direct Investment (FDI) involves:**
(a) Short-term speculative investments in financial markets
(b) Acquiring a significant ownership stake in a foreign company
(c) Exporting goods and services to foreign markets
(d) Purchasing foreign currency for investment purposes

3. **Portfolio investment includes:**
(a) Long-term investments in real estate and infrastructure projects
(b) Investments in a variety of financial assets like stocks and bonds in foreign markets
(c) Direct investments in foreign businesses to control their operations
(d) Currency trading for speculative purposes

4. **Capital flight refers to:**
(a) The movement of financial capital from one country to another for investment purposes
(b) The sudden influx of foreign investment into a country's stock market
(c) The mass migration of skilled labor to other countries for better opportunities
(d) The rapid depreciation of a country's currency in the foreign exchange market

5. **The International Monetary Fund (IMF) plays a role in:**
(a) Regulating international trade and setting tariff rates
(b) Facilitating foreign direct investment between countries
(c) Providing financial assistance to countries facing balance of payments crises
(d) Setting interest rates in the global financial markets.

1.2 - Types of Foreign Capital

1. **Foreign Direct Investment (FDI) involves:**
(a) Short-term speculative investments in financial markets
(b) Acquiring a significant ownership stake in a foreign company
(c) Exporting goods and services to foreign markets
(d) Purchasing foreign currency for investment purposes

2. **Portfolio investment includes:**
(a) Long-term investments in real estate and infrastructure projects
(b) Investments in a variety of financial assets like stocks and bonds in foreign markets
(c) Direct investments in foreign businesses to control their operations
(d) Currency trading for speculative purposes

3. **Foreign Institutional Investment (FII) refers to:**
(a) Investments made by foreign governments in domestic companies
(b) Investments made by multinational corporations in foreign subsidiaries
(c) Investments made by foreign institutional investors like mutual funds in the domestic financial markets
(d) Investments made by domestic investors in foreign financial markets

4. **Official Development Assistance (OD(a) is a type of foreign capital provided by:**
(a) Multinational corporations to support their global expansion
(b) International organizations like the World Bank to fund infrastructure projects in developing countries
(c) Foreign governments to promote investment in specific sectors of their economy
(d) Individual investors looking for diversification in foreign markets

5. **Remittances from overseas workers are an example of:**
(a) FDI inflows from foreign companies establishing subsidiaries in a country
(b) Portfolio investment by foreign investors in the domestic stock market
(c) Foreign aid provided by international organizations to support social development
(d) Foreign capital inflows from individuals sending money back to their home country

1.3 - Foreign Direct Investment (FDI)

1. **Foreign Direct Investment (FDI) refers to:**
(a) Short-term speculative investments in financial markets
(b) Acquiring a significant ownership stake in a domestic company by foreign investors
(c) Exporting goods and services to foreign markets
(d) Purchasing foreign currency for investment purposes

2. **FDI differs from portfolio investment in that FDI involves:**

(a) Buying and selling financial assets like stocks and bonds in foreign markets

(b) Long-term investments in real assets like property, factories, and businesses in a foreign country

(c) Exchanging one currency for another in the foreign exchange market

(d) Providing financial assistance to countries facing balance of payments crises

3. **FDI can be categorized into two types: horizontal and vertical FDI. Horizontal FDI refers to:**

(a) Investments made in the same industry or business activity as the investor's domestic operations

(b) Investments made in different industries or business activities from the investor's domestic operations

(c) The acquisition of a controlling stake in a domestic company by a foreign government

(d) The transfer of technology and knowledge between countries

4. **The main motivations for companies to engage in FDI include:**

(a) Speculating on short-term exchange rate movements

(b) Accessing new markets and customers

(c) Earning profits from currency trading

(d) Importing goods and services from foreign markets

5. **Host countries often encourage FDI by offering various incentives, which may include:**

(a) Imposing high taxes and tariffs on foreign investors

(b) Restricting foreign ownership in domestic companies

(c) Providing tax breaks, subsidies, and favorable regulatory treatment to foreign investors

(d) Limiting the repatriation of profits and dividends by foreign investors

1.4 - Foreign Portfolio Investment (FPI)

1. **Foreign Portfolio Investment (FPI) refers to:**
   (a) Acquiring a significant ownership stake in a domestic company by foreign investors
   (b) Buying and selling financial assets like stocks and bonds in foreign markets
   (c) Exporting goods and services to foreign markets
   (d) Providing financial assistance to countries facing balance of payments crises

2. **FPI differs from Foreign Direct Investment (FDI), in that FPI involves:**
   (a) Long-term investments in real assets like property, factories, and businesses in a foreign country
   (b) Short-term speculative investments in financial markets
   (c) The transfer of technology and knowledge between countries
   (d) Exporting goods and services to foreign markets

3. **FPI allows investors to:**
   (a) Acquire controlling stakes in domestic companies and have a say in their management
   (b) Diversify their investment portfolios across different countries and industries
   (c) Gain ownership of foreign real estate and infrastructure projects
   (d) Access government incentives and subsidies for foreign investments

4. **The main instruments of FPI include:**
   (a) Foreign currencies and commodities
   (b) Real estate properties in foreign countries.
   (c) Stocks, bonds, and other securities in foreign markets
   (d) Direct ownership of foreign companies

5. **FPI can be more volatile than FDI due to:**
   (a) Longer investment horizons and strategic objectives
   (b) Government regulations and restrictions on foreign investors
   (c) Frequent buying and selling of financial assets in response to market conditions
   (d) Currency exchange rate fluctuations

1.5 - Reasons for Foreign Direct Investment

1. **Foreign Direct Investment (FDI) is undertaken by multinational corporations (MNCs) for various reasons. Which of the following is NOT a common reason for MNCs to engage in FDI?!**

   (a) Accessing new markets and customers

   (b) Reducing exposure to exchange rate fluctuations

   (c) Obtaining access to strategic resources and inputs

   (d) Taking advantage of lower labor costs in foreign countries

2. **MNCs often invest in foreign countries to gain access to new markets and customers. This strategy allows them to:**

   (a) Increase the costs of their products in foreign markets

   (b) Increase their domestic production and market share

   (c) Export their products from the home country at a lower cost

   (d) Tap into the growing demand for their goods and services in foreign markets

3. **FDI can also be driven by the desire to obtain access to strategic resources and inputs, such as:**

   (a) Financial capital and foreign exchange reserves

   (b) Skilled Tabor and technology

   (c) Renewable energy sources like wind and solar power

   (d) Freshwater and arable land for agricultural production

4. **Some MNCs invest in foreign countries to establish production-facilities and take advantage of lower labor costs. This strategy is known as:**

   (a) Horizontal FDI (b) Vertical FDI

   (c) Portfolio investment (d) Official Development Assistance (OD(a)

5. **FDI can also be driven by the desire to avoid trade barriers and protectionist policies in foreign markets. By investing locally, MNCs can:**

   (a) Access government subsidies and tax breaks in the home country

   (b) Secure exclusive intellectual property rights in the foreign market

   (c) Bypass import tariffs and quotas imposed on foreign goods

   (d) Influence the exchange rate of the foreign currency

1.6 - Modes of Foreign Direct Investment (FDI)

1. **Which mode of Foreign Direct Investment (FDI) involves the establishment of new operations or facilities in a foreign country?**

   (a) Greenfield investment. (b) Merger and acquisition

   (c) Portfolio investment (d) Joint venture

2. **When a foreign company acquires a substantial ownership stake in an existing domestic company, it is known as:**

   (a) Greenfield investment (b) Merger and acquisition

   (c) Portfolio investment (d) Joint venture

3. **A joint venture in FDI is characterized by:**

   (a) A foreign company acquiring a domestic company to form a new entity

   (b) Two or more companies from different countries collaborating to create a new venture

   (c) A foreign company, buying shares of a domestic company in the stock market

   (d) A multinational corporation investing in various financial assets in foreign markets

4. **Which mode of FDI involves the acquisition of shares or ownership stakes in a domestic company without seeking full control over the company's management?**

   (a) Greenfield investment (b) Merger and acquisition

   (c) Portfolio investment (d) Joint venture

5. **The primary motivation for multinational corporations to choose a joint Venture as a mode of FDI is:**

   (a) Access to new markets and customers

   (b) Obtaining full control over the foreign company's management

   (c) Reducing exposure to exchange rate fluctuations

   (d) Access to low-cost resources and inputs in the foreign market

1.7 - Benefits of Foreign Direct Investment

1. **Foreign Direct Investment (FDI) can bring various benefits to the host country's economy. Which of the following is NOT a common benefit of FDI for the host country?**

   (a) Job creation and employment, opportunities

   (b) Transfer of technology and knowledge

   (c) Increased competition leading to lower prices for consumers

   (d) Capital flight and loss of foreign exchange reserves

2. **FDI can contribute to economic growth and development in the host country by:**

   (a) Reducing competition in domestic markets

   (b) Repatriating profits and dividends to the home country

   (c) Encouraging domestic firms to innovate and improve their efficiency

   (d) Importing cheap labor from the home country

3. **One of the benefits of FDI for the host country is the creation of new jobs and employment opportunities. This is particularly crucial in countries with:**

   (a) High unemployment rates and limited domestic investment

   (b) Low foreign exchange reserves and budget deficits

   (c) Strong trade surpluses and a robust manufacturing sector

   (d) Stable political systems and low inflation rates

4. **FDI can lead to technology spillovers in the host country, which refers to:**

   (a) The transfer of technology and knowledge from domestic firms to foreign investors

   (b) The transfer of technology and knowledge from foreign investors to domestic firms

   (c) The repatriation of technology and knowledge back to the home country

   (d) The acquisition of technology and knowledge by the host country's government

5. **FDI can enhance the host country's export competitiveness by:**

   (a) Increasing import tariffs and barriers to foreign competition

   (b) Subsidizing domestic industries to reduce production costs

   (c) Attracting foreign investment in export-oriented sectors

   (d) Reducing access to foreign markets for domestic firms

1.8 - Potential Problems Associated with Foreign Direct Investment

1. **One of the potential problems associated with FDI is the risk of:**
   (a) Increased competition leading to lower prices for consumers
   (b) Loss of jobs and employment opportunities in the host country
   (c) Technology spillovers and knowledge transfer to domestic firms
   (d) Enhanced export competitiveness for the host country's industries

2. **Host countries may face a potential problem related to the repatriation of profits by foreign investors. This refers to:**
   (a) The transfer of profits and dividends from domestic firms to foreign investors
   (b) The transfer of profits and dividends from foreign investors to domestic firms
   (c) The reinvestment of profits within the host country's economy
   (d) The increase in government revenue from corporate taxation

3. **The term "resource curse" is used to describe a potential problem associated with FDI in some countries. It refers to:**
   (a) The abundance of natural resources leading to economic stagnation
   (b) The lack of essential resources for industrial development
   (c) The concentration of foreign investment in a few industries, 'neglecting other sectors'
   (d) The successful exploitation of natural resources for economic growth

4. **A potential problem associated with FDI is the risk of creating a dependence on foreign technology and expertise. This could lead to:**
   (a) Enhanced technological capabilities of domestic firms
   (b) Increased competition in the domestic market
   (c) Reduced innovation and research and development activities
   (d) Diversification of the host country's export markets

5. **The "race to the bottom" is a potential problem that arises when countries compete to attract FDI by:**
   (a) Implementing high corporate tax rates to generate government revenue
   (b) Offering the highest labor wages to attract foreign investors

(c) Providing generous incentives and subsidies to foreign companies

(d) Restricting foreign ownership in domestic companies,

1.9 - Foreign Direct Investment in India

1. **Foreign Direct Investment (FDI) in India is regulated and governed by:**

(a) The World Trade Organization (WTO)

(b) The International Monetary Fund (IMF)

(c) The Reserve Bank of India (RBI) and the Foreign Exchange Management Act (FEM(a)

(d) The Ministry of External Affairs (ME(a)

2. **Which sector has historically attracted the highest FDI inflows in India?**

(a) Agriculture and allied activities

(b) Manufacturing and industrial sectors Come gro

(c) Information Technology (IT) and Business Process Outsourcing (BPO)

(d) Healthcare and pharmaceutical industries

3. **The "Make in India" initiative, launched by the Indian government, aims to:**

(a) Promote domestic consumption and reduce imports

(b) Attract foreign investment and enhance India's manufacturing sector

(c) Encourage emigration of skilled Indian workers to other countries

(d) Strengthen India's agricultural sector and increase food exports

4. **To attract FDI in specific sectors, the Indian government has allowed a higher level of FD under the automatic route in areas such as:**

(a) Defense and retail trading

(b) Education and healthcare

(c) Telecommunications and insurance

(d) Banking and financial services

5. **The Indian government has implemented various policy measures to ease FDI inflows, such as:**

(a) Imposing strict capital controls and restrictions on repatriation of profits

(b) Limiting foreign ownership in domestic companies to protect domestic industries

(c) Simplifying regulations, liberalizing foreign investment norms, and improving business environment

(d) Banning foreign investment in sensitive sectors like defense and infrastructure

1.10 - Overseas Direct Investment by Indian Companies

1. **Overseas Direct Investment (ODI) refers to:**

(a) Foreign investment in India by multinational corporations

(b) Investment in Indian companies by foreign investors

(c) Indian companies investing in businesses and assets in foreign countries

(d) Foreign portfolio investment in Indian financial markets

2. **Indian companies undertake Overseas Direct Investment (ODI) primarily to:**

(a) Gain access to new markets and customers abroad

(b) Avoid competition from foreign companies in the Indian market

(c) Obtain financial assistance from foreign governments

(d) Reduce their domestic production and operations

3. **The Reserve Bank of India (RBI) regulates ODI by Indian companies. The regulatory framework aims to:**

(a) Encourage Indian companies to invest only in neighboring countries

(b) Restrict ODI to specific sectors in foreign countries

(c) Liberalize ODI norms and simplify the approval process

(d) Prohibit Indian companies from investing in foreign assets

4. **Which sector has seen significant Overseas Direct Investment (ODI) by Indian companies in recent years?**

(a) Agriculture and allied activities

(b) Manufacturing and industrial sectors

(c) Information Technology (IT) and Business Process Outsourcing (BPO)

(d) Healthcare and pharmaceutical industries

5. **The "Going Global" strategy is often pursued by Indian companies through ODI. This strategy aims to:**

(a) Focus solely on the domestic market and reduce foreign exposure

(b) Diversify business risks by expanding into international markets

(c) Attract foreign companies to invest in India

(d) Limit foreign investment in the Indian economy

ANSWERS (Unit 5):

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	C	4.	B	5.	B
6.	B	7.	C	8.	B	9.	C	10.	B

1.2 – Types of Foreign Capital

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	A	5.	C
6.	D	7.	A	8.	D	9.	B	10.	C

1.3 – Foreign Direct Investment (FDI)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	B	5.	C
6.	B	7.	B	8.	C	9.	C	10.	B

1.4 - Foreign Portfolio Investment (FPI)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	D	3.	B	4.	C	5.	C
6.	B	7.	B	8.	D	9.	C		

1.5 – Reasons for Foreign Direct Investment

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	C	5.	C
6.	C	7.	C	8.	B	9.	C	10.	C

1.6 – Modes of Foreign Direct Investment (FDI)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	B	5.	A
6.	B	7.	A	8.	A	9.	C	10.	D

1.7 – Benefits of Foreign Direct Investment

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	C	5.	C
6.	C	7.	C	8.	C	9.	A	10.	C

1.8 – Potential Problems Associated with Foreign Direct Investment

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	A	4.	C	5.	B
6.	C	7.	C	8.	C	9.	B		

1.9 – Foreign Direct Investment in India

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	D	4.	C	5.	C
6.	D	7.	A	8.	C	9.	A	10.	A

1.10 – Overseas Direct Investment by Indian Companies

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	C	5.	A
6.	C	7.	A	8.	C	9.	D		

Additional Question Bank

1.1 - Introduction

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	A	5.	C

1.2 – Types of Foreign Capital

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	C	4.	B	5.	D

1.3 – Foreign Direct Investment (FDI)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	b	2.	b	3.	A	4.	b	5.	C

1.4 - Foreign Portfolio Investment (FPI)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	B	4.	C	5.	C

1.5 – Reasons for Foreign Direct Investment

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	B	4.	A	5.	C

1.6 – Modes of Foreign Direct Investment (FDI)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	B	3.	B	4.	C	5.	A

1.7 – Benefits of Foreign Direct Investment

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	A	4.	B	5.	C

1.8 – Potential Problems Associated with Foreign Direct Investment

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	A	3.	A	4.	C	5.	C

1.9 – Foreign Direct Investment in India

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	C	5.	C

1.10 – Overseas Direct Investment by Indian Companies

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	C	4.	C	5.	B

CHAPTER-5

Indian Economy

Multiple Choice Questions

1.1 - Status of Indian Economy: Pre-Independence Period (1850-1947)

1. **During the pre-independence period, the Indian economy was primarily characterized by:**
   (a) Rapid industrialization and urbanization
   (b) Agricultural dominance and dependence on traditional industries
   (c) High levels of foreign direct investment and technological advancements
   (d) Modern banking systems and well-developed financial markets

2. **The colonial policies of the British Raj during this period led to:**
   (a) Promotion of Indian industries and protectionism.
   (b) Liberalization of trade and unrestricted foreign investments
   (c) The decline of traditional Indian industries and exploitation of resources
   (d) Equal economic opportunities for Indians and British citizens

3. **What was the impact of the Great Depression of the 1930s on the Indian economy?**
   (a) The Indian economy remained largely unaffected by the global economic crisis
   (b) India's agriculture sector thrived during the Great Depression
   (c) The Great Depression caused significant economic hardships and unemployment in India
   (d) India became a major exporter of manufactured goods during the Depression

4. **The growth of the Indian National Movement during this period was partly fueled by:**
   (a) Widespread support for British colonial policies
   (b) A decline in the desire for independence among Indians
   (c) Economic grievances and discontent with British economic exploitation
   (d) The British government's focus on modernizing the Indian economy

5. **What was the role of Indian agriculture during the pre-independence period?**
   (a) Indian agriculture was highly mechanized and technologically advanced
   (b) Agriculture played a minor role in the economy with the focus on industrialization

(c) Indian agriculture was the backbone of the economy, employing the majority of the population

(d) Agriculture was primarily focused on cash crops for export to British markets

6. Which sector was the backbone of the Indian economy during the pre-independence period?

(a) Information Technology (IT) and Business Process Outsourcing (BPO)

(b) Manufacturing and Heavy Industries

(c) Services and Financial Sector

(d) Agriculture

7. What was the impact of colonial rule on the Indian economy during the pre-independence period?

(a) Colonial rule led to rapid industrialization and modernization of the Indian economy

(b) Colonial policies focused on promoting Indian industries and supporting economic growth

(c) Colonial exploitation led to the drain of wealth from India and hindered economic development

(d) Colonial rule had no significant impact on the Indian economy

8. Which of the following was a major challenge faced by the Indian economy during the pre-independence period?

(a) Excessive foreign investment leading to economic dependence

(b) Inadequate availability of skilled labor for industrialization

(c) Rapid population growth and unemployment

(d) Lack of technological advancements and modern infrastructure

9. Which economic concept was prominent in the Indian economy during the pre-independence period, emphasizing self-reliance and local production?

(a) Import substitution

(b) Export-oriented industrialization

(c) Free trade and globalization

(d) Foreign direct investment and multinational corporations

1.2 - Indian Economy: Post-Independence (1947-1991)

1. **What was the economic policy adopted by India after independence in 1947, which emphasized self-sufficiency and import substitution?**
   (a) Export-oriented industrialization
   (b) Privatization and liberalization
   (c) Import substitution and planned economy
   (d) Foreign direct investment and globalization

2. **Which of the following was a significant feature of the Indian economy during the post-independence period?**
   (a) Rapid industrialization and urbanization
   (b) Extensive foreign direct investment and multinational corporations
   (c) Dominance of the services sector and information technology
   (d) Mixed economy with a public sector-led approach

3. **What was the purpose of the Five-Year Plans introduced by India during the post-independence period?**
   (a) To promote foreign trade and attract foreign investments
   (b) To encourage private sector dominance in the economy
   (c) To achieve rapid industrialization and economic growth through planned development
   (d) To reduce government intervention and promote free market policies

4. **Which major economic event took place in India in 1991, leading to significant economic reforms?**
   (a) Nationalization of banks and financial institutions
   (b) Adoption of import substitution policies
   (c) Liberalization and opening up of the Indian economy
   (d) Introduction of the Green Revolution in agriculture

5. **What were the primary objectives of the economic reforms in India in 1991?**
   (a) To strengthen the public sector and promote socialism
   (b) To attract foreign direct investment and multinational corporations

(c) To achieve rapid economic growth and integration with the global economy

(d) To prioritize the agricultural sector and promote rural development

6. **What was the economic policy adopted by India after independence in 1947, emphasizing self-reliance and state-led planning?**

(a) Import substitution (b) Liberalization and privatization

(c) Globalization and free trade (d) Mixed economy and planned development

7. **The First Five-Year Plan in India focused on the development of which sector?**

(a) Agriculture and rural development

(b) Information Technology (IT) and Business Process Outsourcing (BPO)

(c) Heavy industries and infrastructure

(d) Services and financial sector

8. **Which significant economic event occurred in India in 1991, leading to a major shift in economic policies and reforms?**

(a) The nationalization of banks

(b) The adoption of the Green Revolution

(c) The liberalization and globalization reforms

(d) The introduction of the Goods and Services Tax (GST)

9. **What was the major objective of the economic reforms in India during the post-independence period?**

(a) To achieve self-sufficiency and import substitution

(b) To promote export-oriented industrialization

(c) To attract foreign direct investment and multinational corporations

(d) To accelerate economic growth and improve efficiency

10. **Which sector experienced significant growth during the post-independence period, contributing to India's economic development?**

(a) Agriculture and rural development

(b) Heavy industries and infrastructure

(c) Information Technology (IT) and Business Process Outsourcing (BPO)

(d) Services and financial sector

1.3 - The Era of Reforms

1. **When did India initiate its major economic reforms and liberalization measures?**
   (a) 1951 (b) 1971 (c) 1981 (d) 1991

2. **What was the primary objective of the economic reforms introduced in 1991?**
   (a) To promote import substitution
   (b) To achieve self-sufficiency in food production
   (c) To accelerate economic growth and improve efficiency
   (d) To increase government control over the economy

3. **Which sector witnessed significant deregulation and liberalization during the era of economic reforms in India?**
   (a) Agriculture and rural development
   (b) Heavy industries and infrastructure
   (c) Information Technology (IT) and Business Process Outsourcing (BPO)
   (d) Services and financial sector

4. **What was the major change in India's trade policy during the era of economic reforms?**
   (a) Shift towards import substitution
   (b) Strict control on imports to protect domestic industries
   (c) Opening up the economy to global trade and reducing import tariffs
   (d) Imposition of export restrictions to conserve resources

5. **Which economic concept became central to India's economic strategy during the era of reforms?**
   (a) Import substitution (b) Planned development
   (c) Self-sufficiency (d) Liberalization and globalization

6. **The economic reforms in India during the 1990s aimed to:**
   (a) Strengthen the socialist economic model
   (b) Encourage import substitution and self-reliance
   (c) Promote export-oriented industrialization
   (d) Accelerate economic growth and improve efficiency

7. **Which Indian Prime Minister played a significant role in initiating the economic reforms in 1991?**
(a) Jawaharlal Nehru (b) Rajiv Gandhi
(c) Indira Gandhi (d) P. V. Narasimha Rao

8. **What was the key objective of the New Economic Policy introduced in 1991?**
(a) Nationalization of Industries and banks (b) Promotion of agricultural subsidies
(c) Reducing fiscal deficit and inflation (d) Encouraging foreign aid and grants

9. **Which sector witnessed significant privatization during the era of reforms in India?**
(a) Information Technology (IT) and Business Process Outsourcing (BPO)
(b) Agriculture and rural development
(c) Heavy Industries and infrastructure
(d) Services and financial sector

1.4 - The Economic Reforms of 1991

1. **The economic reforms of 1991 in India were primarily aimed at:**
(a) Encouraging import substitution and self-reliance
(b) Promoting socialism and central planning
(c) Accelerating economic growth and improving efficiency
(d) Reducing foreign direct investment and multinational corporations

2. **The New Economic Policy of 1991 included measures related to:**
(a) Increase in import tariffs and trade restrictions
(b) Nationalization of major industries and banks
(c) Fiscal deficit reduction and financial sector reforms
(d) Expansion of public sector enterprises

3. **Which international financial institution played a significant role in providing financial assistance and support during India's economic crisis in 1991?**
(a) World Trade Organization (WTO)
(b) International Monetary Fund (IMF)

(c) World Bank

(d) Asian Development Bank (AD(b)

4. **The industrial policy reforms of 1991 aimed to:**

(a) Encourage import substitution and protect domestic industries

(b) Nationalize major industries and establish public sector monopolies

(c) Promote foreign direct investment and multinational corporations

(d) Liberalize and deregulate the industrial sector

5. **What was the major impact of the economic reforms of 1991 on India's economic growth and development?**

(a) Slower economic growth and increased unemployment

(b) Higher fiscal deficit and inflation rates

(c) Accelerated economic growth and improved global competitiveness

(d) Increased trade barriers and reduced international trade

6. **The economic reforms of 1991 in India were launched under the leadership of:**

(a) Jawaharlal Nehru (b) Rajiv Gandhi

(c) Indira Gandhi (d) P. V. Narasimha Rao

7. **Which of the following is NOT one of the key pillars of the economic reforms of 1991?**

(a) Liberalization (b) Privatization (c) Globalization (d) Nationalization

8. **The New Economic Policy (NEP) of 1991 aimed to:**

(a) Increase government control over the economy

(b) Promote a closed and self-sufficient economic model

(c) Encourage foreign investment and reduce government intervention

(d) Isolate the Indian economy from the global market

9. **Which sector witnessed significant liberalization during the economic reforms of 1991?**

(a) Agriculture and rural development

(b) Information Technology (IT) and Business Process Outsourcing (BPO)

(c) Heavy industries and infrastructure

(d) Services and financial sector

10. **The 1991 economic reforms in India resulted in:**

(a) Slower economic growth and increased unemployment

(b) Higher fiscal deficit and inflation

(c) Increased government control over industries

(d) Higher foreign investment and improved economic performance

1.4.1 - The Fiscal Reforms

1. **The fiscal reforms of 1991 aimed to address which of the following issues?**

(a) Reduce inflation and control fiscal deficit

(b) Increase government spending and subsidies

(c) Nationalize key industries and banks

(d) Implement protectionist trade policies

2. **What measures were taken to control the fiscal deficit during the 1991 reforms?**

(a) Increase public expenditure and welfare schemes

(b) Lower tax rates and increase tax exemptions

(c) Reduce government spending and subsidies

(d) Implement import tariffs and export duties

3. **The 1991 fiscal reforms introduced the concept of "LPG," which stands for:**

(a) Liberalization, Privatization, and Globalization

(b) Limited Profits and Gains

(c) Low Price Guarantee

(d) Local Production and Growth

4. **How did the fiscal reforms impact the taxation system in India during the 1990s?**

(a) Taxes were increased on all income levels

(b) Tax rates were lowered to stimulate consumption

(c) Tax administration was simplified and streamlined

(d) Corporate taxes were abolished for multinational companies

5. **What was the primary goal of the fiscal reforms in 1991 regarding government finances?**

(a) Accumulate foreign reserves to repay foreign debt

(b) Enhance social welfare programs and subsidies

(c) Achieve a surplus budget and reduce public debt

(d) Increase public spending to boost economic growth

6. **What was the main objective of the fiscal reforms of 1991 in India?**

(a) To reduce government expenditure and increase taxes

(b) To promote deficit financing to boost economic growth

(c) To reduce fiscal deficit and improve fiscal discipline

(d) To increase public spending on social welfare programs

7. **Which measure was taken to reduce fiscal deficit during the 1991 reforms?**

(a) Increasing public spending on infrastructure projects

(b) Introducing higher tax rates for the wealthy individuals

(c) Reducing subsidies on essential goods and services

(d) Implementing universal basic income for all citizens

8. **The introduction of Value Added Tax (VAT) in 2005 was part of which fiscal reform initiative?**

(a) Fiscal deficit reduction program

(b) Tax rationalization and modernization

(c) Privatization of state-owned enterprises

(d) Poverty alleviation and social welfare scheme

9. **Which of the following was a significant outcome of the fiscal reforms in India during the 1990s?**

(a) Increased fiscal deficit and inflation

(b) Reduced foreign direct investment (FDI) inflows

(c) Improved credit rating and investment climate

(d) Higher government expenditure on unproductive projects

10. **What role did the Fiscal Responsibility and Budget Management (FRBM) Act play in the fiscal reforms?**

(a) It allowed the government to borrow without any restrictions

(b) It increased the fiscal deficit to finance development projects

(c) It imposed fiscal discipline and set targets for reducing fiscal deficit

(d) It allocated a higher budget for defense and military expenses

1.4.2 - Monetary and Financial Sector Reforms

1. **The primary objective of monetary and financial sector reforms in 1991 was to:**

(a) Increase government control over the banking sector

(b) Promote excessive borrowing and lending by banks

(c) Improve the efficiency and stability of the financial system

(d) Nationalize private banks and financial institutions

2. **Which regulatory authority was established as a result of the financial sector reforms in 1991 to oversee the functioning of the banking and financial institutions in India?**

(a) Securities and Exchange Board of India (SEBI)

(b) Reserve Bank of India (RBI)

(c) National Stock Exchange (NSE)

(d) Insurance Regulatory and Development Authority of India (IRDAI)

3. **What major step was taken to liberalize the Indian banking sector during the financial reforms of 1991?**

(a) Nationalization of private banks

(b) Restricting foreign direct investment in the banking sector

(c) Allowing private sector banks to enter the industry

(d) Imposing strict capital controls on banks

4. The reduction in the statutory liquidity ratio (SLR) and the cash reserve ratio (CRR) aimed to:

(a) Discourage bank lending and control inflation

(b) Promote excessive lending by banks to boost economic growth

(c) Enhance the liquidity position of banks and promote lending

(d) Increase government control over the banking sector

5. The financial sector reforms of 1991 led to the establishment of which stock exchange in India?

(a) Bombay Stock Exchange (BSE)

(b) National Stock Exchange (NSE)

(c) Kolkata Stock Exchange (KSE)

(d) Chennai Stock Exchange (CSE)

6. Which financial institution was established in 1991 to regulate and develop the Indian securities market?

(a) Reserve Bank of India (RBI)

(b) Securities and Exchange Board of India (SEBI)

(c) National Stock Exchange (NSE)

(d) Bombay Stock Exchange (BSE)

7. The reduction of Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) during the financial reforms aimed to:

(a) Increase the flow of credit and money supply in the economy

(b) Discourage banks from lending and encourage saving

(c) Stabilize exchange rates and control inflation

(d) Restrict foreign investments in the financial sector

8. What was the major objective of introducing the National Stock Exchange (NSE) in 1994?

(a) To promote regional stock exchanges in India

(b) To facilitate trading of commodities and agricultural products

(c) To attract foreign direct investment (FDI) in the stock market

(d) To provide an efficient and transparent stock trading platform

9. **Which policy measure was taken to strengthen the banking sector during the monetary reforms of 1991?**
   (a) Merger of nationalized banks with private banks
   (b) Deregulation of interest rates for borrowers and depositors
   (c) Imposition of capital controls to restrict foreign capital inflows
   (d) Introduction of a fixed exchange rate system

1.4.3 - Reforms in Capital Markets

1. **The establishment of the Securities and Exchange Board of India (SEBI) in 1992 aimed to:**
   (a) Promote the trading of physical commodities in the market
   (b) Regulate and develop the Indian securities market
   (c) Encourage foreign direct investment (FDI) in the capital markets
   (d) Promote the privatization of state-owned enterprises

2. **The introduction of rolling settlement in the stock exchanges aimed to:**
   (a) Increase the transaction costs for investors
   (b) Encourage short-term speculation in the market
   (c) Settle trades faster and improve market efficiency
   (d) Restrict foreign investors from participating in the market

3. **The reforms in capital markets during 1991 allowed for:**
   (a) Increased government control over stock exchanges
   (b) Foreign investment only in government securities
   (c) Free pricing of shares by companies during IPOS
   (d) Imposition of capital controls to restrict foreign investments

4. **The introduction of the Depository System in India aimed to:**
   (a) Encourage physical share certificates for ease of trading
   (b) Increase the paperwork and documentation for investors
   (c) Facilitate electronic holding and transfer of securities
   (d) Restrict foreign investors from participating in the market

5. **Which index was launched in 1994 to track the performance of the Indian stock market?**
   (a) Bombay Stock Exchange (BSE) Sensex
   (b) National Stock Exchange (NSE) Nifty
   (c) Dow Jones Industrial Average (DJI(a)
   (d) London Stock Exchange (LSE) FTSE 100

1.4.4 - The 'New Industrial Policy'

1. **The 'New Industrial Policy' of 1991 aimed to:**
   (a) Promote the growth of small-scale industries only
   (b) Encourage the entry of foreign companies in all sectors
   (c) Deregulate the industrial sector and reduce government control
   (d) Nationalize all private industries for better management

2. **Which sector was reserved exclusively for the public sector in the 'New Industrial Policy' of 1991?**
   (a) Telecommunication (b) Information Technology (IT)
   (c) Defense production (d) Retail and consumer goods

3. **The 'New Industrial Policy' introduced the concept of 'Automatic Approval' for foreign direct investment (FDI) up to what percentage in most sectors?**
   (a) 25% (b) 40% (c) 51% (d) 100%

4. **What was the major shift in the licensing policy under the 'New Industrial Policy'?**
   (a) Licensing was made mandatory for all industries
   (b) Licensing was abolished for all industries
   (c) Licensing was introduced only for large-scale industries
   (d) Licensing was restricted to the service sector

5. **The 'New Industrial Policy' aimed to promote which type of industries in India?**
   (a) Heavy industries only
   (b) Traditional and labor-intensive industries

(c) Export-oriented and high-tech industries

(d) Industries exclusively for domestic consumption

6. **The 'New Industrial Policy' was announced in India in which year?**

(a) 1980 (b) 1991 (c) 2000 (d) 2010

7. **What was the main objective of the 'New Industrial Policy'?**

(a) To promote heavy industries and state-owned enterprises

(b) To encourage import substitution and self-reliance

(c) To boost economic growth through private sector participation

(d) To protect domestic industries from foreign competition

8. **The 'New Industrial Policy' aimed to abolish the Industrial Licensing System for all industries except:**

(a) Large-scale industries (b) Small-scale industries

(c) Export-oriented industries (d) Information Technology (IT) Industries

9. **The 'New Industrial Policy' introduced the concept of Special Economic Zones (SEZS) to:**

(a) Promote traditional industries in rural areas

(b) Encourage export-oriented industries and attract foreign investments

(c) Provide tax incentives to large-scale industries

(d) Nationalize and centralize industrial activities

10. **The 'New Industrial Policy' aimed to reduce the role of the public sector in Industries by:**

(a) Promoting disinvestment of public sector enterprises

(b) Providing subsidies and incentives to public sector companies

(c) Nationalizing private industries to make them public sector enterprises

(d) Imposing high taxes on private sector companies

1.4.5 - Trade Policy Reforms

1. **The trade policy reforms in India during the 1991 economic reforms aimed to:**
   (a) Promote import substitution and restrict foreign trade
   (b) Increase tariffs on imported goods to protect domestic industries
   (c) Liberalize and open up the economy to international trade
   (d) Nationalize all foreign companies operating in India

2. **Which organization is responsible for formulating and implementing India's foreign trade policy?**
   (a) Ministry of Finance
   (b) Reserve Bank of India (RBI)
   (c) Ministry of Commerce and Industry.
   (d) Securities and Exchange Board of India (SEBI)

3. **The introduction of Export-Import (EXIM) Policy in India aimed to:**
   (a) Discourage exports and promote domestic consumption
   (b) Streamline the import of luxury goods and technologies
   (c) Facilitate and promote exports and imports for economic growth
   (d) Imposition of high tariffs on both exports and imports

4. **Which trade policy measure was taken to promote Special Economic Zones (SEZS) in India?**
   (a) Imposing higher tariffs on goods produced in SEZS
   (b) Restricting the import of raw materials for SEZS
   (c) Providing tax incentives and duty exemptions for SEZS
   (d) Discouraging foreign investment in SEZS

5. **What was the major objective of India's trade policy reforms during the 1990s?**
   (a) Increase reliance on domestic production and reduce imports
   (b) Promote a closed and self-sufficient economic model
   (c) Encourage export-oriented growth and attract foreign investments
   (d) Isolate the Indian economy from the global market

6. **The trade policy reforms in India during the 1991 economic liberalization aimed to:**
(a) Increase tariffs on imports to protect domestic industries
(b) Encourage import substitution and reduce exports
(c) Open up the economy and promote international trade
(d) Impose strict quotas on imports to control trade deficit

7. **Which organization was set up in 1995 to promote multilateral trade and resolve trade disputes among member countries?**
(a) World Bank
(b) International Monetary Fund (IMF)
(c) World Trade Organization (WTO)
(d) United Nations Conference on Trade and Development (UNCTA(d)

8. **The trade policy reforms of 1991 led to a shift from an import-substitution strategy to:**
(a) A focus on heavy industries and infrastructure
(b) An export-oriented approach and integration with global markets
(c) A closed and self-sufficient economic model
(d) A reliance on foreign aid and grants

9. **The reduction of import tariffs and removal of quantitative restrictions aimed to:**
(a) Encourage domestic production and promote self-reliance
(b) Increase revenue for the government through import taxes
(c) Discourage foreign direct investment (FDI) in certain sectors
(d) Attract foreign investments and enhance competition

10. **What was the impact of trade policy reforms in India during the 1990s?**
(a) Increase in trade deficit and reduced exports
(b) Slower economic growth and higher unemployment
(c) Diversification of export markets and increased foreign investments
(d) Decrease in foreign exchange reserves and higher inflation

1.4.6 - GDP Growth Rates Post 1991 Reforms

1. **What was the average GDP growth rate of India in the decade following the 1991 economic reforms?**
   (a) 3.5% (b) 5.2% (c) 6.8% (d) 8.4%

2. **In which year did India witness the highest GDP growth rate in the post-reform period?**
   (a) 1992 (b) 1996 (c) 2004 (d) 2010

3. **During the post-reform period, if the GDP growth rate in a particular year was 7.2%, what was the approximate average growth rate of the previous three years if it was 6.5%, 6.8%, and 6.9% respectively?**
   (a) 6.2% (b) 6.4% (c) 6.7% (d) 6.9%

4. **In the post-reform period, if the GDP growth rate in a particular year was 8.5%, and the average growth rate of the previous two years was 7.9% and 8.2%, what was the GDP growth rate of the year before the two previous years?**
   (a) 7.5% (b) 7.8% (c) 8.0% (d) 8.3%

5. **What was the percentage increase in GDP growth rate from 1991 to 1992 if the growth rate in 1991 was 4.0% and in 1992 was 5.8%?**
   (a) 14% (b) 20% (c) 30% (d) 45%

6. **What was the average GDP growth rate in India during the 1990s post the economic reforms?**
   (a) 3.5% (b) 5.2% (c) 6.8% (d) 8.3%

7. **In which year did India witness the highest GDP growth rate in the 1990s post the reforms?**
   (a) 1991 (b) 1994 (c) 1997 (d) 1999

8. **What was the GDP growth rate in India in the year 1999 post the reforms?**
   (a) 5.8% (b) 6.4% (c) 7.3% (d) 8.9%

9. **What was the GDP growth rate in India in the year 1993 post the reforms?**
(a) 4.3% (b) 5.1% (c) 6.2% (d) 7.6%

10. **What was the average GDP growth rate in India during the 2000s post the economic reforms?**
(a) 5.2% (b) 6.7% (c) 8.1% (d) 9.5%

1.5 - NITI AAYOG: A Bold Step for Transforming India

1. **What does NITI Aayog stand for?**
(a) National Institute of Technology and Innovation
(b) National Institution for Technology Implementation
(c) National Institution for Transforming India
(d) National Innovation and Technology Institute

2. **When was NITI Aayog established?**
(a) 2005 (b) 2010 (c) 2014 (d) 2018

3. **Who is the chairperson of NITI Aayog?**
(a) President of India (b) Prime Minister of India
(c) Finance Minister of India (d) Chief Minister of Delhi

4. **What is the primary role of NITI Aayog?**
(a) Implementing central government schemes at the state level
(b) Formulating and implementing five-year plans for economic development
(c) Advising the government on policy matters and providing strategic inputs
(d) Conducting research on technological advancements

5. **How is NITI Aayog different from the Planning Commission?**
(a) NITI Aayog focuses on centralized planning, whereas the Planning Commission focused on decentralized planning.
(b) NITI Aayog is a statutory body, whereas the Planning Commission was a constitutional body.
(c) NITI Aayog is more flexible and allows for cooperative federalism, whereas the Planning Commission followed a top-down approach.

(d) NITI Aayog has a fixed tenure, whereas the Planning Commission had a permanent structure.

6. **When was NITI Aayog established in India?**
(a) 2000 (b) 2014 (c) 2017 (d) 2020

7. **The primary objective of NITI Aayog is:**
(a) Poverty alleviation and rural development
(b) To plan and allocate resources for economic projects
(c) To provide technical support to state governments
(d) Transforming India by fostering cooperative federalism and sustainable development

8. **Which five-year plan of India was replaced by NITI Aayog?**
(a) First Five-Year Plan (b) Second Five-Year Plan
(c) Eighth Five-Year Plan (d) Twelfth Five-Year Plan

9. **NITI Aayog serves as a think tank for the Government of India, providing policy recommendations and strategies. What role does it play in policy formulation?**
(a) It has the authority to implement policies directly
(b) It acts as an advisory body to the President of India
(c) It provides policy inputs to the government but has no decision-making power
(d) It is responsible for drafting all legislative bills related to policies

1.6 - The Current State of the Indian Economy: A Brief Overview

1. **What was the approximate GDP growth rate of India in the last fiscal year (2020-2021)?**
(a) 2.0% (b) 4.2% (c) 7.3% (d) 10.1%

2. **Which sector of the Indian economy was the worst affected during the COVID-19 pandemic?**
(a) Agriculture (b) Manufacturing
(c) Services (d) Mining and construction

3. **Inflation in India is primarily measured using which index?**
   (a) Consumer Price Index (CPI) (b) Wholesale Price Index (WPI)
   (c) Producer Price Index (PPI) (d) Cost of Living Index (CLI)

4. **What was the inflation rate in India in the last reported period?**
   (a) 2.8% (b) 5.2% (c) 8.1% (d) 11.5%

5. **India's foreign exchange reserves reached a record high in the current year (2021). What is the approximate value of India's foreign exchange reserves?**
   (a) $100 billion (b) $250 billion (c) $500 billion (d) $750 billion

6. **What was the GDP growth rate of India in the most recent fiscal year (2020-2021)?**
   (a) 5.4% (b) 7.3% (c) 9.5% (d) 11.5%

7. **Which sector of the Indian economy experienced a significant contraction during the COVID-19 pandemic?**
   (a) Agriculture and allied activities (b) Manufacturing and industries
   (c) Services and hospitality (d) Information Technology (IT) and software

8. **Which factor contributed to the surge in India's exports in recent years?**
   (a) Increase in trade barriers and tariffs by other countries
   (b) Depreciation of the Indian rupee against major currencies
   (c) Decline in global demand for Indian goods and services
   (d) Imposition of strict import quotas by the Indian government

9. **What is the current inflation rate in India (as of the most recent data available)?**
   (a) 2.5% (b) 4.2% (c) 6.8% (d) 9.1%

10. **The Government of India implemented several economic relief measures during the COVID-19 pandemic. Which one of the following is NOT one of those measures?**
    (a) Direct cash transfers to low-income households
    (b) Loan moratorium for individuals and businesses

(c) Subsidies for fuel and food items

(d) Increase in the Goods and Services Tax (GST) rates

1.6.1 - The Primary Sector

1. **Which of the following activities is NOT part of the primary sector in the Indian economy?**

(a) Agriculture (b) Mining and quarrying (c) Manufacturing (d) Fishing

2. **What percentage of India's workforce is employed in the primary sector?**

(a) Approximately 15% (b) Approximately 30%

(c) Approximately 50% (d) Approximately 70%

3. **Which crop is the largest contributor to agricultural GDP in India?**

(a) Wheat (b) Rice (c) Sugarcane (d) Cotton

4. **What is the main source of irrigation in Indian agriculture?**

(a) Tube wells and canals (b) Rainwater harvesting

(c) Dams and reservoirs (d) Groundwater recharge

5. **Which state in India is the largest producer of sugarcane?**

(a) Uttar Pradesh (b) Maharashtra

(c) Andhra Pradesh (d) Karnataka

6. **Which state in India is the largest producer of rice, wheat, and pulses?**

(a) Maharashtra (b) Uttar Pradesh

(c) Punjab (d) West Bengal

7. **The Green Revolution in India primarily focused on increasing the productivity of which crop?**

(a) Rice (b) Wheat (c) Cotton (d) Sugarcane

8. **Which state in India is known as the "Granary of India" due to its high agricultural productivity?**

(a) Kerala (b) Gujarat (c) Punjab (d) Bihar

1.6.2 – The Secondary Sector

1. **Which of the following activities is a part of the secondary sector in the Indian economy?**
   (a) Agriculture (b) Mining (c) Manufacturing (d) Fishing

2. **What percentage of India's GDP comes from the secondary sector?**
   (a) Around 10% (b) Around 25% (c) Around 50% (d) Around 75%

3. **Which city in India is known as the "Manchester of India" due to its prominent role in the textile industry?**
   (a) Surat (b) Mumbai (c) Kolkata (d) Coimbatore

4. **Which industry is considered the backbone of the Indian economy and a major contributor to the secondary sector?**
   (a) Automobile industry (b) Information Technology (IT) industry
   (c) Textile industry (d) Banking and finance industry

5. **Which state in India is known for its automobile manufacturing hub, often referred to as the "Detroit of India"?**
   (a) Tamil Nadu (b) Maharashtra (c) Karnataka (d) Gujarat

6. **The secondary sector of the economy is also known as:**
   (a) The manufacturing sector (b) The agricultural sector
   (c) The services sector (d) The mining sector

7. **Which of the following industries is part of the secondary sector in India?**
   (a) Information Technology (IT) services (b) Tourism and hospitality
   (c) Automobile manufacturing. (d) Banking and financial services

8. **What percentage of India's Gross Domestic Product (GDP) is contributed by the secondary sector?**
   (a) Around 10% (b) Around 25% (c) Around 50% (d) Around 75%

9. **The Industrial Policy of 1991 aimed to:**
   (a) Increase the public sector's dominance in manufacturing
   (b) Discourage foreign investment in industrial activities
   (c) Liberalize and deregulate the industrial sector
   (d) Nationalize all private industries for better control

10. **Which organization is responsible for formulating and implementing industrial policies in India?**
   (a) Reserve Bank of India (RBI) (b) Ministry of Commerce and Industry
   (c) NITI Aayog (d) Ministry of Finance

1.6.3 - The Tertiary Sector

1. **The tertiary sector of the economy is also known as:**
   (a) The manufacturing sector (b) The agricultural sector
   (c) The services sector (d) The mining sector

2. **Which of the following industries is part of the tertiary sector in India?**
   (a) Automobile manufacturing (b) Information Technology (IT) services
   (c) Steel production (d) Textile manufacturing

3. **What percentage of India's Gross Domestic Product (GDP) is contributed by the tertiary sector?**
   (a) Around 10% (b) Around 25% (c) Around 50% (d) Around 75%

4. **Which of the following activities is NOT part of the tertiary sector?**
   (a) Banking and finance (b) Healthcare and education
   (c) Manufacturing of consumer goods (d) Hospitality and tourism

5. **The growth of the tertiary sector in India is primarily driven by:**
   (a) Increased agricultural production
   (b) Growth in manufacturing industries.
   (c) Rising consumer demand for services
   (d) Government subsidies to service providers

Additional Question Bank

1.1. Status of Indian Economy: Pre-Independence Period (1850-1947)

1. **During the pre-independence period (1850-1947), the Indian economy was primarily characterized by:**
   (a) High industrialization and urbanization
   (b) Self-sufficiency and a robust agricultural sector
   (c) Extensive foreign direct investment (FDI) from European countries
   (d) An export-oriented economy with a strong manufacturing base

2. **The dominant sector in the Indian economy during the pre-independence period was:**
   (a) Manufacturing and heavy industries
   (b) Services and financial sector
   (c) Agriculture and allied activities
   (d) Information Technology (IT) and software development

3. **The economic policies of the British colonial rule in India during the pre-independence period were focused on:**
   (a) Promoting domestic industries and protecting them from foreign competition
   (b) Encouraging agricultural modernization and land reforms
   (c) Exporting raw materials to Britain and importing manufactured goods
   (d) Attracting foreign investment and multinational corporations

4. **The Indian economy during the pre-independence period faced challenges such as:**
   (a) High inflation and rising fiscal deficits
   (b) Rapid industrialization and urbanization
   (c) Limited access to modern technology and infrastructure
   (d) Abundant foreign investments leading to economic dependency

5. **The economic policies of the British colonial rule in India had a significant impact on the country's:**
   (a) High industrialization and technological advancement
   (b) Import substitution and promotion of domestic industries

(c) Development of a skilled labor force and educational system
(d) Deindustrialization and decline of traditional handicrafts

1.2 - Indian Economy: Post-Independence (1947-1991)

1. **After gaining independence in 1947, India adopted a development model that emphasized:**
(a) A free-market economy and minimal government intervention
(b) Import substitution and self-reliance through industrialization
(c) Attracting foreign direct investment (FDI) to boost economic growth
(d) Rapid expansion of the agricultural sector and rural development

2. **During the post-independence period, the Indian government implemented a series of economic plans known as:**
(a) The Open-Door Policy
(b) The Import-Export Strategy
(c) The Five-Year Plans
(d) The Globalization Initiative

3. **The Green Revolution in India, initiated in the 1960s, aimed to:**
(a) Promote industrialization and urbanization in rural areas
(b) Achieve self-sufficiency in food production through agricultural modernization
(c) Encourage foreign direct investment (FDI) in the agricultural sector
(d) Develop a strong services sector and modernize the financial system

4. **During the post-independence period, the Indian economy faced challenges such as:**
(a) High inflation and fiscal deficits
(b) Limited access to international trade and foreign markets
(c) Over-reliance on foreign direct investment (FDI) for economic growth
(d) A strong and stable currency leading to export competitiveness

5. **In 1991, India initiated significant economic reforms known as "Liberalization, Privatization, and Globalization" (LPG). The key. objectives of these reforms were to:**
(a) Promote self-sufficiency and import substitution in all sectors
(b) Expand the public sector and nationalize industries for economic growth

(c) Attract foreign direct investment (FDI) and open up the economy to global markets

(d) Implement protectionist trade policies to shield domestic industries from foreign competition

1.3 - The Era of Reforms

1. **The era of economic reforms in India began in which year?**

(a) 1947 (b) 1975 (c) 1985 (d) 1991

2. **The economic reforms in India in 1991 were initiated to address the challenges of:**

(a) High inflation and fiscal deficits

(b) Economic stagnation and low growth rates

(c) Over-reliance on agricultural sector and rural development

(d) Trade deficits and balance of payments crisis

3. **The 1991 economic reforms in India, known as "Liberalization, Privatization, and Globalization" (LPG), aimed to:**

(a) Promote self-sufficiency and import substitution in all sectors

(b) Expand the public sector and nationalize industries for economic growth

(c) Attract foreign direct investment (FDI) and open up the economy to global markets

(d) Implement protectionist trade policies to shield domestic industries from foreign competition

4. **The key architect of India's economic reforms in 1991 was:**

(a) Jawaharlal Nehru (b) Indira Gandhi

(c) Rajiv Gandhi (d) Dr. Manmohan Singh

5. **The economic reforms in India since 1991 have resulted in significant changes in various sectors of the economy, such as:**

(a) Increased government control over industries and public-sector enterprises

(b) Reduced focus on foreign direct investment (FDI) and international trade

(c) Deregulation and opening up of industries to private and foreign participation

(d) Concentration on agricultural subsidies and rural development programs

1.4 - The Economic Reforms of 1991

1. **The economic reforms of 1991 in India were introduced by the government to address the crisis related to:**
   (a) High inflation and fiscal deficits
   (b) Trade deficits and balance of payments crisis
   (c) Over-reliance on the agricultural sector
   (d) Government control over industries

2. **Which Prime Minister of India played a crucial role in initiating the economic reforms of 1991?**
   (a) Jawaharlal Nehru (b) Indira Gandhi
   (c) Rajiv Gandhi (d) P. V. Narasimha Rao

3. **The economic reforms of 1991 aimed to liberalize and open up the Indian economy by reducing:**
   (a) Foreign direct investment (FDI) inflows
   (b) Imports of goods and services
   (c) Export opportunities for domestic firms
   (d) Government control and regulations in various sectors

4. **One of the key components of the economic reforms of 1991 was the dismantling of the:**
   (a) Reserve Bank of India (RBI) (b) Planning Commission of India
   (c) Ministry of Finance (d) Ministry of External Affairs

5. **The "License Raj" in India, which required businesses to obtain various permits and licenses, was significantly relaxed as part of the economic reforms to encourage:**
   (a) Foreign direct investment (FDI) inflows
   (b) Import substitution and self-reliance
   (c) Entrepreneurship and private sector participation
   (d) Agricultural modernization and rural development

1.4.1 - The Fiscal Reforms

1. **The fiscal reforms of 1991 in India aimed to address the issue of:**
   (a) High inflation and fiscal deficits
   (b) Trade deficits and balance of payments crisis
   (c) Over-reliance on the agricultural sector
   (d) Government control over industries

2. **One of the key measures introduced as part of fiscal reforms was the reduction of subsidies on:**
   (a) Food and agricultural inputs
   (b) Education and healthcare services
   (c) Export-oriented industries
   (d) Foreign direct investment (FDI)

3. **The introduction of Value Added Tax (VAT) in India was a significant fiscal reform aimed at:**
   (a) Encouraging foreign direct investment (FDI)
   (b) Simplifying the tax structure and promoting ease of doing business
   (c) Expanding government control over industries
   (d) Providing tax exemptions to certain sectors

4. **The fiscal reforms of 1991 also emphasized fiscal discipline, which involved measures to:**
   (a) Increase government spending and stimulate economic growth
   (b) Reduce government borrowing and control public debt
   (c) Implement higher tax rates on the corporate sector
   (d) Nationalize industries and strategic sectors

5. **The reduction in the fiscal deficit as part of the fiscal reforms aimed to restore:**
   (a) Export competitiveness and trade surplus
   (b) Public sector dominance in the economy
   (c) Confidence in the Indian economy and attract foreign investment
   (d) The focus on the agricultural sector and rural development

1.4.2 - Monetary and Financial Sector Reforms

1. **The monetary and financial sector reforms of 1991 aimed to:**
   (a) Control inflation by increasing government spending
   (b) Liberalize and modernize the financial system
   (c) Restrict foreign direct investment (FDI) in the banking sector
   (d) Promote agricultural credit and rural development

2. **The "Narasimham Committee" was appointed to recommend reforms in the:**
   (a) Agricultural sector and rural credit system
   (b) Export and import policies
   (c) Industrial licensing and regulation
   (d) Banking and financial sector

3. **The introduction of the "Liquidity Adjustment Facility (LAF) was a significant monetary reform that aimed to:**
   (a) Control inflation by reducing the money supply
   (b) Provide liquidity support to banks through repo and reverse repo operations
   (c) Promote foreign direct investment (FDI) in the banking sector
   (d) Restrict credit flow to the agricultural sector

4. **As part of the financial sector reforms, the government encouraged the establishment of new private sector banks to:**
   (a) Enhance competition and efficiency in the banking industry
   (b) Nationalize and control the banking sector
   (c) Reduce foreign direct investment (FDI) in the banking sector
   (d) Promote public sector dominance in the financial system

5. **The reduction in reserve requirements for banks and the introduction of prudential norms were measures to:**
   (a) Stimulate economic growth and increase credit availability
   (b) Control inflation and reduce government borrowing
   (c) Restrict foreign direct investment (FDI) in the banking sector
   (d) Encourage banks to prioritize lending to large corporations

1.4.3 - Reforms in Capital Markets

1. **The capital market reforms of the 1990s aimed to:**
   (a) Encourage foreign direct investment (FDI) in the stock market
   (b) Liberalize and modernize the Indian stock exchanges
   (c) Restrict access to the stock market for domestic investors
   (d) Nationalize and control the capital market

2. **The establishment of the Securities and Exchange Board of India (SEBI) was a crucial step in the capital market reforms to:**
   (a) Facilitate foreign direct investment (FDI) in the capital market
   (b) Regulate and develop the Indian securities market
   (c) Control government borrowing from the stock market
   (d) Restrict foreign institutional investment in Indian companies

3. **The introduction of the Depository System aimed to:**
   (a) Discourage foreign direct investment (FDI) in Indian companies
   (b) Increase transparency and efficiency in share transactions
   (c) Encourage public sector dominance in the capital market
   (d) Restrict foreign institutional investment in Indian companies

4. **The reforms in the primary market were focused on:**
   (a) Increasing government control over Initial Public Offerings (IPOs)
   (b) Facilitating foreign direct investment (FDI) in IPOs
   (c) Simplifying the process of issuing shares and raising capital
   (d) Restricting access to IPOs for retail investors

5. **The introduction of the Foreign Institutional Investor (Fil) route aimed to:**
   (a) Promote foreign direct investment (FDI) in the capital market
   (b) Control the flow of foreign capital in the stock market
   (c) Restrict foreign participation in Indian companies
   (d) Encourage foreign investment in the real estate sector

1.4.4 - The New Industrial Policy

1. **The New Industrial Policy of 1991 aimed to:**
   (a) Promote import substitution and self-reliance in industries.
   (b) Control foreign direct investment (FDI) in the manufacturing sector
   (c) Liberalize and deregulate the industrial sector for economic growth
   (d) Nationalize and centralize the control of industries

2. **One of the key features of the New Industrial Policy' was the abolition of the Industrial Licensing System, except for:**
   (a) Industries engaged in the production of hazardous substances
   (b) Export-oriented industries
   (c) Small-scale industries
   (d) Government-owned enterprises

3. **The New Industrial Policy aimed to attract foreign direct investment (FDI) by:**
   (a) Restricting access to certain sectors for foreign investors
   (b) Providing tax incentives only to domestic companies
   (c) Simplifying procedures and allowing automatic approval for most industries
   (d) Discouraging foreign investment to protect domestic industries

4. **The New Industrial Policy encouraged the growth of the small-scale sector by:**
   (a) Providing them with preferential treatment over large-scale Industries
   (b) Implementing higher tariffs on imports to protect small-scale enterprises
   (c) Exempting them from taxes and regulations
   (d) Giving them access to easy credit and technology upgradation

5. **One of the main objectives of the 'New Industrial Policy' was to create a competitive environment that would lead to:**
   (a) Monopoly control of industries by a few large corporations
   (b) Government control and regulation of all industries
   (c) Technological backwardness and import dependence
   (d) Global competitiveness and efficiency in the industrial sector

1.4.5 - Trade Policy Reforms

1. **The trade policy reforms of the 1990s aimed to:**
   (a) Encourage import substitution and self-reliance
   (b) Restrict foreign direct investment (FDI) in trade activities
   (c) Liberalize and open up the Indian economy to global markets
   (d) Nationalize and centralize trade activities

2. **One of the key measures introduced as part of the trade policy reforms was the reduction of:**
   (a) Export incentives and subsidies
   (b) Tariffs and import restrictions
   (c) Foreign direct investment (FDI) in trade sectors
   (d) Access to international markets for Indian exporters

3. **The trade policy reforms aimed to promote export-led growth by:**
   (a) Discouraging exports and focusing on domestic consumption
   (b) Providing subsidies to import-dependent industries
   (c) Encouraging foreign direct investment (FDI) in export-oriented industries
   (d) Providing incentives and concessions to boost exports

4. **The introduction of the Export-Import (EXIM) Policy aimed to:**
   (a) Restrict imports and promote self-reliance
   (b) Control foreign direct investment (FDI) in the export sector
   (c) Facilitate foreign trade and simplify import-export procedures
   (d) Promote domestic industries through higher tariffs on imports

5. **The trade policy reforms of the 1990s were driven by the objective of:**
   (a) Isolating the Indian economy from global markets
   (b) Reducing foreign competition and protecting domestic industries
   (c) Integrating India into the global economy and enhancing competitiveness
   (d) Increasing government control and regulation of trade activities

1.4.6 - GDP Growth Rates Post 1991 Reforms

1. **The economic reforms of 1991 in India led to a significant impact on the country's GDP growth rate. Which of the following statements about the post-1991 GDP growth rates is correct?**
   (a) The GDP growth rate declined sharply after the reforms were introduced.
   (b) The GDP growth rate remained stagnant and showed no significant improvement.
   (c) The GDP growth rate showed steady improvement and accelerated after the reforms.
   (d) The GDP growth rate became highly volatile and unpredictable.

2. **The economic reforms of 1991 aimed to boost economic growth and enhance the overall performance of the Indian economy What was the average GDP growth rate during the initial years (immediately after the reforms) post-1991?**
   (a) Below 3% (b) Around 5% (c) Approximately 7% (d) Above 10%

3. **India's GDP growth rate during the post-1991 period has often been compared with the growth rates of other emerging economies. What has been the general trend in India's GDP growth rate compared to other emerging economies?**
   (a) India's GDP growth rate consistently outperformed other emerging economies.
   (b) India's GDP growth rate remained at par with other emerging economies.
   (c) India's GDP growth rate showed fluctuating performance compared to other emerging economies.
   (d) India's GDP growth rate consistently lagged behind other emerging economies.

4. **India's GDP growth rate during the post-1991 period has been driven by various factors, including increased industrialization, foreign direct investment (FDI), and export-oriented growth. Which sector played a crucial role in contributing to the growth during this period?**
   (a) Agricultural sector (b) Services sector
   (c) Manufacturing sector (d) Mining and natural resources sector

5. **The period post the 1991 reforms is often referred to as a phase of economic liberalization and growth. What has been the general trend in India's GDP growth rate in recent years (up to the last available data)?**
   (a) The GDP growth rate has been consistently declining.

(b) The GDP growth rate has been relatively stable with minor fluctuations.

(c) The GDP growth rate has been volatile, with significant ups and downs.

(d) The GDP growth rate has been consistently increasing.

1.5 - NITI Aayog: A Bold Step for Transforming India

1. **NITI Aayog was established in India to replace which previous planning body?**

(a) Planning Commission

(b) Reserve Bank of India (RBI)

(c) Ministry of Finance

(d) Securities and Exchange Board of India (SEBI)

2. **NITI Aayog stands for:**

(a) National Investment and Trade Initiative

(b) National Institution for Transforming India

(c) National Innovation and Technology Incubator

(d) National Integration and Tribal Inclusion

3. **NITI Aayog was established in which year?**

(a) 2005 (b) 2010 (c) 2014 (d) 2018

4. **The primary objective of NITI Aayog is to:**

(a) Regulate and control economic policies in India

(b) Implement the fiscal and monetary policies of the government

(c) Formulate long-term development plans and policies for India

(d) Facilitate foreign direct investment (FDI) in various sectors

5. **The Chairman of NITI Aayog is:**

(a) The Prime Minister of India

(b) The Finance Minister of India

(c) The Governor of Reserve Bank of India (RBI)

(d) An elected representative from the Parliament

1.6 - The Current State of The Indian Economy: A Brief Overview

1.6.1 - The Primary Sector

1. **Which of the following activities is typically associated with the primary sector?**
(a) Manufacturing automobiles (b) Providing banking services
(c) Agriculture and farming (d) Software development

2. **The primary sector is also known as the:**
(a) Industrial sector (b) Service sector
(c) Agricultural sector (d) Information technology sector

3. **Which of the following resources are primarily extracted in the primary sector?**
(a) Oil and gas (b) Software and technology
(c) Banking services (d) Textile and apparel

4. **In India, the primary sector contributes significantly to the country's:**
(a) Exports and foreign exchange earnings
(b) Urban infrastructure and development
(c) Information technology industry
(d) Industrial manufacturing output

5. **Which of the following industries falls under the primary sector?**
(a) Software development (b) Textile manufacturing
(c) Retail banking (d) Dairy farming

1.6.2 - The Secondary Sector

1. **Which of the following activities is typically associated with the secondary sector?**
(a) Agriculture and farming (b) Manufacturing and industrial production
(c) Providing banking services (d) Software development

2. **The secondary sector is also known as the:**
(a) Agricultural sector (b) Service sector
(c) Industrial sector (d) Information technology sector

3. **In India, the secondary sector contributes significantly to the country's:**
   (a) Exports and foreign exchange earnings
   (b) Urban infrastructure and development
   (c) Information technology industry
   (d) Agricultural output

4. **Which of the following industries falls under the secondary sector?**
   (a) Software development (b) Textile manufacturing
   (c) Retail banking (d) Dairy farming

5. **The growth of the secondary sector is often considered an important indicator of:**
   (a) Environmental sustainability
   (b) Agricultural productivity
   (c) Economic development and industrialization
   (d) Public sector expansion

1.6.3 - The Tertiary Sector

1. **Which of the following activities is typically associated with the tertiary sector?**
   (a) Agriculture and farming (b) Manufacturing and industrial production
   (c) Providing banking services (d) Oil and gas extraction

2. **The tertiary sector is also known as the:**
   (a) Agricultural sector (b) Service sector
   (c) Industrial sector (d) Information technology sector

3. **In India, the tertiary sector contributes significantly to the country's:**
   (a) Exports and foreign exchange earnings
   (b) Urban infrastructure and development
   (c) Manufacturing output
   (d) Agricultural production

4. Which of the following industries falls under the tertiary sector?

(a) Software development (b) Textile manufacturing

(c) Retail banking (d) Mining and natural resources

5. The growth of the tertiary sector is often considered an important indicator of:

(a) Environmental sustainability (b) Agricultural productivity

(c) Economic development and modernization (d) Public sector expansion

ANSWERS:

1.1 – Status of Indian Economy: Pre Independence Period (1850-1947)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	C	5.	C
6.	D	7.	C	8.	D	9.	A		

1.2 – Indian Economy: Post-Independence (1947-1991)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	D	3.	C	4.	C	5.	C
6.	D	7.	A	8.	C	9.	D	10.	C

1.3 – The Era of Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	C	3.	C	4.	C	5.	D
6.	D	7.	D	8.	C	9.	C		

1.4 – The Economic Reforms of 1991

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	D	5.	C
6.	D	7.	D	8.	C	9.	B	10.	D

1.4.1 – The Fiscal Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	C	3.	A	4.	C	5.	C
6.	C	7.	C	8.	B	9.	C	10.	C

1.4.2 – Monetary and Financial Sector Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	C	4.	C	5.	B
6.	B	7.	A	8.	D	9.	B		

1.4.3 – Reforms in Capital Markets

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	C	5.	B

1.4.4 – The 'New Industrial Policy'

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	D	4.	B	5.	C
6.	B	7.	C	8.	B	9.	B	10.	A

1.4.5 – Trade Policy Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	C	5.	C
6.	C	7.	C	8.	B	9.	D	10.	C

1.4.6 – GDP Growth Rates Post 1991 Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	C	4.	B	5.	B
6.	C	7.	D	8.	C	9.	D	10.	B

1.5 – NITI AAYOG – A Bold Step for Transforming India

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	C	5.	C
6.	B	7.	D	8.	D	9.	C		

1.6 – The Current State of the Indian Economy: A Brief Overview

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	A	4.	A	5.	C
6.	D	7.	C	8.	B	9.	B	10.	D

1.6.1 – The Primary Sector

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	A	5.	A
6.	B	7.	B	8.	C				

1.6.2 – The Secondary Sector

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	A	4.	C	5.	A
6.	A	7.	C	8.	C	9.	C	10.	B

1.6.3 – The Tertiary Sector

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	D	4.	C	5.	C

Additional Question Bank

1.1 – Status of Indian Economy: Pre Independence Period (1850-1947)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	C	4.	C	5.	D

1.2 – Indian Economy: Post-Independence (1947-1991)

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	B	4.	A	5.	C

1.3 – The Era of Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	D	2.	B	3.	C	4.	D	5.	C

1.4 – The Economic Reforms of 1991

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	D	4.	B	5.	C

1.4.1 – The Fiscal Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	A	2.	A	3.	B	4.	B	5.	C

1.4.2 – Monetary and Financial Sector Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	D	3.	B	4.	A	5.	A

1.4.3 – Reforms in Capital Markets

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	B	3.	B	4.	C	5.	A

1.4.4 – The 'New Industrial Policy'

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	A	3.	C	4.	D	5.	D

1.4.5 – Trade Policy Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	D	4.	C	5.	C

1.4.6 – GDP Growth Rates Post 1991 Reforms

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	A	4.	B	5.	C

1.5 – NITI AAYOG – A Bold Step for Transforming India

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	B	4.	C	5.	C
6.	B	7.	D	8.	D	9.	C		

1.6 – The Current State of the Indian Economy: A Brief Overview

1.6.1 – The Primary Sector

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	C	3.	.....	4.	A	5.	D

1.6.2 – The Secondary Sector

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	B	2.	C	3.	A	4.	B	5.	C

1.6.3 – The Tertiary Sector

Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.	Q. No.	Ans.
1.	C	2.	B	3.	B	4.	C	5.	C